“Kotak Mahindra Bank Q1 FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Q1 FY21 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 the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak. Thank you and over to you, sir.

Uday Kotak: Good evening friends. When we spoke last in May after our annual results for the year ended March, we discussed broadly and that was the time when we were with a view, all of us, the analyst community, the investor community and ourselves that we are moving to a new normal world. When I speak to you in July, the speed of change in the way the virus is going, the way the economy is going, is making me modify the statement to say that we are now in a never normal world, a constantly changing world at great speed requiring elasticity and speed of change on all the players in the economy including the financial sector.

In May, we had envisaged that COVID would get to some sort of a clarity by July-August. As we stand today in July, this is now looking clearly longer than what was envisaged when we looked at it in April and May. For a moment, we saw a surge of activity in the month of June giving hope and optimism that we were getting to some new equilibrium in a reasonably quick manner. However, the early data which is coming out for July is showing some sort of a flattening vis-à-vis June rather than a continuing acceleration and therefore, the question in our mind is whether June was a sign of a pent-up demand or showing the surge and whether July is now getting to us to a more real world as we see it today.

Our current view is we hope to see COVID in the Indian context stabilize in the October-November period which is effectively the next quarter on a national basis. Different parts of the country are at different phases of how the virus is moving, some encouraging signs, particularly from metros namely Mumbai and Delhi, but some other parts of the country are still seeing it move forward. Therefore, if the virus stabilizes in the period October, November, December for a country as a whole, our view is that the economy will get back to 2019-20 run rate by the second quarter 2021-22 which is exactly around a year from now. Therefore, we get back to a run rate of 2019-20 in about a year's time and gradually move from the current levels of the economy towards a 100% level in about a year's time. That is the broad view which we at this point of time have. We hope that this moves faster, but still difficult to predict how it goes.

For the last quarter of this year, which is January to March, we are hoping to see the economic activity on a year-on-year basis at a run rate of 90% plus, but let us see how it plays out. So with this broad perspective on how we see the virus and the economy play out and it is quite important to keep in mind that currently, we are in the hands of science and trying to find economic answers and financial solutions to essentially a problem of science. We are also hopeful that in the next 9 to 12 months, we will have greater clarity on the science itself in terms of the cure and the vaccine.

Moving beyond from the broader COVID related issues and its impact on the economy, I would now really like to focus with reference to Kotak because we are discussing the quarterly results of Kotak in the backdrop of this context and here, I would first like to say a fundamental philosophy we had deeply committed to. The balance sheet is more important than short-term profit and loss account and therefore in that context, I would first like to start with the subject which is the subject matter of intense debate which is moratorium. If you look at our data for the moratorium from June onwards, our moratorium 2.0 is about 9.65% of the total loan book. This is significantly lower than the earlier moratorium 1.0 and if you look at our moratorium, we have used a very surgical criteria for taking decisions on moratorium 2.0. It has been focused on trying to assess the fundamental viability of the borrower to the extent we can and wherever we have reasonable belief that the underlying viability is okay, we are happy to give more time in moratorium, so that business can recoup and come back to some sort of normalcy in time. But where we have had questions on viability of the underlying business, without any doubt, we have taken a bolder call and said let this flow through rather than give moratorium which effectively is kicking the can if the underlying viability whole time is a question and we would rather take that pain of not having it under moratorium, and therefore not recognizing the underlying weakness in the account, and we would much rather recognize it earlier rather than later and that is what we have done effective June, as a result of which some of the accounts have flown into NPA and we are ready to take the pain chin on. And therefore our moratorium approach is, there has to be a belief in viability and we also prefer normally to give moratoriums where we have some sort of a security rather than being completely unsecured and therefore the breakup of our moratorium if you see in moratorium 2 is out of 9.65%, 80% or more is actually having underlying security of some sort and form and therefore the core unsecured part of the moratorium is relatively a small percentage and I would like to share that this is a broad design which we have gone with and of course we have kept in mind the sensitivity of the pain of the real economy and the different stress sectors and appropriately considered the decision on moratorium.

We are also waiting for a right time when we believe we can take a call which is different, which is stepping on the accelerator. If you look at our approach to the MSME scheme which the government has given a guarantee, while as of end of June, we were only Rs.550 crore disbursed, as of 23rd July, we have crossed Rs.4,000 crores which means against Rs.550 crore on 30th of June. We have done an incremental disbursement between 1st of July and 23rd of July of Rs.3,500 crore additionally. So we are ready to take the calls where we have conviction that this is underlying appropriate from a risk return metrics.

Another very important part about our P&L, if you go behind it, it is a significant point that despite flat to negative loan and credit substitute growth, our average NII growth Y-o-Y is 18% which means for a relatively lower risk, we have got an 18% growth in interest earnings and therefore, effectively represents a better quality of earning at lower risk for our shareholders and this approach is consistent with our core philosophy which we have always stood by which is for the risk we take, we must make appropriate returns. One of the other big questions, which is on the minds of people is who is right. Is the economy signals which we are getting right or the market signals which are giving right? I think at times it is a little bit about perspective, markets may be taking a more longer term view especially with excess liquidity and very low cost of money and therefore our approach as we look at a financial services house is to move a very significant part of our strategy and growth into what I would call as distribution businesses versus disproportionate storage businesses and therefore markets versus balance sheet business, we will lean more on the distribution and market side versus taking disproportionate risk only on the balance sheet. That does not mean we are shy of taking on the balance sheet if we believe the risk adjusted return work out.

The other important issue, which I mentioned at the beginning, is our approach is medium-term P&L and balance sheet. Balance sheet all the time and P&L medium term and therefore we have not succumbed to the temptation of booking bond profits in a hurry in the quarter ended June and I would like to share that we sit on significant mark-to-market gains on our bond portfolios and we were not in a hurry to rush to book some of those profits because our quarterly results look better when we come out and this is again a part of core philosophy that if we believe there is value and we will decide on monetizing the value when we think it is fairly priced rather than rushing because that makes our quarter look better. With these broad philosophies in terms of our strategy and working through this important period in history where I think we are getting a significant challenge to build a new India in a changing never normal world, we are at it, reasonably confident and comfortable where we can navigate the ship and come out stronger at the other end. With that, I will now request my colleague, Jaimin Bhatt to take you through the financials and thereafter we have got our management team in different segments of our business share with you what is really happening within Kotak in the context of what is happening on the ground in general. Over to Jaimin Bhatt.

Jaimin Bhatt: Thanks, Uday. Let me take the bank's standalone numbers first. If you take this quarter at the pre-provisioning operating profit, we closed the quarter at a profit of Rs. 2,624 crore which is roughly about 9 odd percent higher than the same period last year. Post-tax, we closed at Rs.1244 crore which is as compared to what we had Rs.1360 crore last year, so we saw that dip and we will come to that**.**

Our net interest income, as Uday mentioned, has grown on a year-on-year basis by close to 18% that despite the fact that our advances have been relatively flat. Our advances overall for the year also getting to a lower number than what we were a year ago.

Our credit substitutes including that we have actually remained, advances plus credit substitutes remained flat over the same period last year. We end with advances with credit substitute at about Rs. 2,17,000 crore which is about the same number as we had last year. Our average advances have grown by about 1.5% year-on-year, but we have seen significant increase in investment activity which, is where we deployed the money on a safety basis. If you look at our liquidity coverage ratio on an average, for this quarter, we ended with a LCR of 150% plus on a daily average basis. We end this quarter with a net interest margin of 4.4%.

Our other income comprising fees and services and treasury related, our fees and services saw a one-third dip over the same period last year, so our number this year is one-third lower than what we had last year. But if I look at the distribution part of fees and services, we actually did 26% higher than what we did the same period last year. So areas like insurance distribution were running fine and we actually grew from where we were in the same period last year. But a lot of the other banking related fees which would include the processing fees, LCBGs, exchange transactions from client, direct banking fees, all of that has seen a big dip for this quarter with lower activity levels, lower volume levels and that has gone lower by almost close to 40% on the year-on-year basis. This is simply our overall fees is about one-third lower than the same period last year.

Our other than fees income, which is part of the component of other income has a net number which is a negative 2 crore for this quarter. If I compare that with a year ago, we were Rs.155 crore and the biggest quarter, we were Rs.219 crore and that is coming largely from the fact that we have not really gone and chosen to book profits and we continue to earn the interest which is coming as part of the NII. Uday have talked about the MTM profits which were sitting on. As of June 30th, our fixed income MTMs is almost close to 3000 crore and if I look at just the delta for this quarter, we have grown the delta MTM by over Rs.1000 crore from the numbers we had in March, so that is the number which we have chosen to retain the MTM gains, not booked as accounting profits.

Our employee cost for this period went down by 6% somewhere also helped by the fact that the leadership levels and senior management have taken a cut on the salaries. Our overall OpEx level, nonemployees, we had a negative growth of 18% and 29% on a year-on-year and a quarter-on-quarter basis and we have seen significant focus on cost control efficiency and productivity and we have seen volumes coming down which has also resulted in some of the cost levels coming down. Therefore, in this quarter with our cost to income ratio now at 41.7%. So at the operating profit level as I said, we are about 9.4% higher than the same period last year and about 4% higher than the preceding quarter.

On the provisions front, we have taken a provision hit of Rs.962 crore for the current quarter, which is comparing with Rs.317 crore for the same period last year. The Rs.962 crore this quarter includes provision on account of COVID which is a net number of Rs.616 crore this quarter. This in addition to the Rs.650 crore which we provided in quarter 4 takes the overall credit provision on account of COVID to Rs.1,266 crore which is about 0.62% of our overall advances. Our credit cost on this basis therefore for this quarter at 190 but which includes 121 bps of COVID costs alone.

Before I get into the others, I request Shanti to take the deposits side and then take it from there please. Shanti heads our Consumer Bank and is responsible for that area of business.

Shanti Ekambaram: Thank you, Jaimin. I will start with the liability side. On an average, around 94 to 95% of our branches remained open right through the quarter. We adopted a hybrid strategy of rostering service staff in branches and work from home to handle in branch and other customer transactions. I would like to thank our staff for the exemplary work they have done in this quarter, in servicing customers despite risks of COVID. We continue to see strong growth in deposits. Average savings deposit growth year-on-year was 34% and average current account growth was 10%. This growth was driven by both acquisition, but significant deepening of our existing customer base. Our CASA ratio was at 56.7% as at June 30th 2020 versus 50.7% last year. We have seen savings growth across all our retail customer segment and to that extent, it has been reasonably granular and across both urban and rural markets.

CASA and TD below Rs.5 crore comprised 90% of deposits versus 82% last year. Sweep deposits comprised 7.2% of the deposits and the cost of savings account is at 4.22% versus 5.51% last year. Average savings balances crossed the 1 lakh milestone mark in this quarter. We focused on zero-contact acquisitions by using our existing 811 platform to acquire new customers. We were the first bank to launch zero-contact video KYC digital savings account, so that new customers could open full-fledged savings account end to end. We successfully implemented technology solutions which allowed a significant part of our contact center operations to be shifted to work from home mode. This enabled us to serve our customers for their requirement as well as continue active engagement on the cross-sell side.

Our distribution fee income showed reasonable growth this quarter. This was again by enabling use of analytics and extension of our CRM platform to cover all relationship teams. A large part of our relationship managers operated in work from home basis, but were very effective in servicing as well as cross-selling to customers. Inbound transactions were lower in April and May, but are significantly up in June-July. Towards doorstep availability of cash, we launched ATM on wheels across major cities which helps our existing customers and onboard many new customers. In COVID times, digital have been a big lead and we enabled several technology solutions across products and processes which helps customers transact for products on a do it yourself basis with a few clicks and get service query answered through a voice and chatbot.

I will now come to the asset side. The mortgages business continued to be a focus area including in Q1. The non-metros showed better traction due to relatively less impact of COVID. Pre-COVID transactions are getting executed now and giving attractive rates. We are seeing many of our customers showing interest to switch. Fresh home purchases continued to be muted. This will continue to be a focus area for growth. In the MSME segment, we are actually seeing prudence on part of our customers. Working capital utilization has come down in line with business activity and this is across cities, industries, states and type of customers. We are focused on disbursing MSME loans to the segment which have helped provide liquidity to the segment of customers. However, many customers who are eligible are still not availing of MSME loans as they want to restrict their leverage, this gives us comfort on the portfolio. For disbursement of MSME loan in given COVID times, we developed a completely end-to-end paperless digital documentation called eSign which helped disbursement without any physical interaction. We have seen traction in acquiring good quality customers from June and during this quarter, we focused on fee income from the MSME segment. We continued to support our customers during this period through a combination of MSME loan and additional limits based on the business requirements. We will continue focus on building a quality franchise in the MSME segment.

In this quarter, we launched an 811 credit card designed for our 811 customers with an end-to-end digital experience for card application and consumption. It is a secured card which allows us to tap hitherto untouched segment like young students, entrepreneurs, housewives, senior citizens on the lines of 811, everyone is invited for this product. We continued to be cautious in our approach to unsecured loans. We use extensive risk analytics to target and focus. The business numbers are reflecting the same. We will continue to do business on quality and with a tighter credit framework.

I would now like to touch upon collections. Resolutions were impacted in April and May due to COVID. In June and July, we have seen improvement in resolution including in cities like Mumbai, Delhi and Chennai which were impacted earlier. We are focused to ensure robust collections across retail asset by way of the following steps. We have strengthened the collections team by moving key leadership and sales teams to collections, this is in addition to extensive agency tied up. We have used risk analytics extensively to support our allocation and collection strategy. We have enabled many digital solutions to help those who are working from home to collect and enable customers to pay. We have enabled multiple digital repayment methods making it easier for collections to happen and enabled the agencies and staff with a special app to monitor collection activity across all employees. This is the key area of focus and we will continue to monitor and track collections across all the metrics. I now request Kannan who heads the commercial banking business to take you through the highlights of this business.

D. Kannan: Thanks, Shanti. I will now speak about various businesses handled by the commercial bank. To start with, I will speak about the commercial vehicles and construction equipment businesses. There has been a steep fall in the sales numbers of new commercial vehicles and hence disbursement for the quarter is quite low. Structural changes in industry over the last 18 months have impacted the economics of the operators even before the pandemic. The last couple of months saw increased fuel prices and lesser availability of loads impacting the viability of the operator. Goods movement though has improved since May and the latest available data indicates traffic movement of around 75%-80% of pre-COVID credit. A check with our customer too is imitating our capacity utilization of 70%-80%. Improved traffic and fleet utilization has led to improved cash flows for operators and hence collection efficiency during June and July has been much better than in May.

Passenger vehicle operators though continued to suffer due to various restrictions on their movements. Given this scenario, we are cautious on new disbursements and completely focused on managing the existing portfolio and we have also strengthened our collection teams to handle the existing portfolio. In comparison, the construction equipment business seems to be better placed. Demand for equipment has been better and improving month on month. Utilization of equipment and cash flows of customers have been reasonable. Customers in the mining and road construction industry seem to be getting back to near normalcy faster. Collection efficiency on the construction equipment side is better than even the CV business but not anywhere close to pre-COVID levels.

I will now give you a brief about the agri business. Our agri business portfolio comprises of SMEs involved in primary and secondary processing of agricultural commodities, large farmers and allied activities like dairy. These set of customers were less impacted by the lockdowns since they were supplying essential commodities. Activity levels and cash flow in the segment was good even during the troubled times. However, non-operation of organized food services like hotels, restaurants etc. reduced the demand for their products and hence quite a few of our customers have utilized lesser of their limits which again points out to the quality of our portfolio. A very good harvest and timely procurement has helped cash flows of customers in this market and collection efficiencies are quite good in this portfolio.

Our direct exposure in microfinance is in the non-urban markets. Most of the borrowers are in agri and allied activities and hence cash flows are not severely impacted. Localized lockdowns though impact collections on and off, but the collection efficiency has consistently improved over the last couple of months, July being better than June and June being better than May.

I will now give you some details of our tractor business. The tractor industry has had a year-on-year growth in numbers in May and June and our disbursements have also been higher during these months. They have also grown. The stock on hire has again grown 15% YoY. Our deep distribution and our digital processes has helped us to continue with normal levels of operations during this period. Customer cash flows are good due to a good harvest and timely procurement and payments. Collection efficiency during June is close to pre-COVID levels. Given good monsoon predictions and good customer cash flows, tractor markets are expected to do well and we are well-placed to take advantage and grow our market share. I will now hand it over to Mr. Manian who heads our corporate investment banking to speak.

KVS Manian: Thank you, Kannan. To give you a sense of the corporate and SME book, let me start with the corporate side of it. We continued to be cautious on this segment primarily to make sure that we do not get hit by some large bullets. So we have done fair amount of work in terms of classifying the book into high, medium and low risk industry categorization and we managed our risk in the high risk industry as well as high concentration risks in the portfolio. So we are cautious about companies with high operating costs and highly leveraged groups and company. So therefore, we have maintained very high alert on our portfolio and we monitor the portfolio very closely even as we disbursed on a day-to-day basis. In fact, our coverage and presence in this segment across corporates is quite good and we continue to keep getting better at it. We can actually scale up the exposures quite quickly once we have reasonable comfort on the economy and the corporate performance in the next few months. So we think we would wait for that to happen and we can quickly scale up the book. Of course, we remain focused on improving spreads in the book which we have achieved quite well. But quite apart from that, we also remained focused on client profitability and wallet share of non-risk revenues like flow business.

We are also seeing institutional equities, GCM and investment banking potential from our customers and it remains a high focused area and we are seeing good potential in most of these kind of non-risk revenues. And you must also see this book in light of the growth in the credit substitutes that you see there which we have done at the top end of this segment.

On the SME, our portfolio behavior remains quite stable. As many of you would recall, we have been telling you that through the last year, we had rationalized this portfolio and cleaned up this portfolio and we had seen a significant drop through the last year while cleaning up the book. Currently, of course we have the story similar to what Shanti and Kannan mentioned. The portfolio is showing significant underutilization of limits which is of course indicative of lower activity as well as probably the quality of the book. So, while in April and May, we had difficulty in acquiring new customers. We are seeing good traction in acquiring of customers from June and also in July. We are quite optimistic about this segment in the medium term.

Quick word on the sectoral exposures. If you look at the numbers, non-HFC/NBFC exposures have marginally dropped and we remain focused on the high end of the NBFC segment. On the HFC exposure, it is essentially an increase in the very very top rated entity in the country. And just a quick word, I think we already talked about MSME. MSME actually as on today, we are more than Rs.4,100 crore. We are seeing a reasonable response, but finally we see a response level of 60%-65% of our book being actually disbursed. Like Shanti mentioned, now the customers are not availing this, but we want to remain focused and make sure we maximize this opportunity and actually at Rs.4,100 crore, we have a disproportionate share of the current levels of disbursement under the scheme. We are close to about 5% whereas our market share overall is about 2% in advances. So that broadly gives you the sense of my area. I would like to hand over back to Jaimin on the asset quality details.

Jaimin Bhatt: Thanks, Manian. Broadly on the asset quality, we closed the period with a gross non-performing asset of 2.7% and the net number of 0.87%. As I mentioned, we have taken a total provisioning of Rs. 962 crore for this quarter and if I right now look at the fact that I take all into account the specific provision, the standard provision, the COVID provision, all of that put together, our total provision is about 107% of our GNPA as of now. So we are pretty much covering our entire GNPA through the whole set of provisions which we have. Our slippages for this quarter at Rs.796 crore which has only one large account which is into early 3 digits, so that is the only single large account which is there and as Uday mentioned in his opening remarks, we have followed the philosophy of not necessarily granting moratoriums and if some of these customers slip into the NPAs, we would be fine with that. So this customer for example banks with several other banks and possibly is continuing to be standard as well.

As we mentioned earlier, our total moratorium 2 is 9.65% of our advances as of June 30. 95% of the people who have been granted moratorium 2 are people who were also part of the moratorium 1. So very small portion of the book comprising of people who come into the moratorium for the first time under the morat 2 basis. 80% of our moratorium 2 is secured and for this calculation, we have taken all of what we have calculated and granted up to the 10th of July. Our total provisions on account of moratorium now at Rs.1,266 crore which we believe is considering the RBI requirements and our own belief, is where we stand today.

Our SMA-2 number continued to be small. We are at 96 crore as of June 30th which is 0.05% of our overall advances book. On the balance sheet, we closed the current quarter with an overall balance sheet size of Rs.378,000 crore. Our capital and reserves at Rs.57,700 crore. As you all are aware, we did QIP issuance during this quarter and we have raised Rs.7,442 crore earlier in the year. We continued to have a very strong capital adequacy. Our total capital adequacy as of June 30th at 21.7%, almost all of it 21.1% comprising of Tier-1. On COVID related, as Shanti mentioned earlier, our priorities have been to look at the safety of our employees and servicing customers. Most of our branches have remained open during this period ensuring that uninterrupted service to the customers. We have continued to open new accounts and in fact became the first bank to have a digital video KYC account opened. We also continued to do our bit with respect to the society and contribution during this COVID times. I would again hand over back to Shanti for the digital activities which we are doing across the group.

Shanti Ekambaram: Thank you, Jaimin. As I said before, during COVID, customers turned even more to digital. Mobile first and digital was always a big focus area for us and more so in the first quarter and in COVID times. You can see that about 97% of our recurring deposits, 87% of our fixed deposits came through digital channels and mobile banking YoY growth continues to be robust. We enabled many new initiatives during the quarter whether it was applying for sovereign gold bond end-to-end digital. We enabled many service ability in Keya chat bot. We were first bank who launched a zero contact video KYC account opening process, which I have already mentioned. So for us, this continues to be an area of focus.

On the UPI transactions, the volume continues to rise and we enabled many more merchants. We enabled new segments particularly grocery which we saw a huge spike in our general shopping area in our Kaymall**.** We enabled collaboration to open banking that helped us offer more products and services to our customers in a digital and seamless manner. Trends in usage of net and mobiles for all kinds of transactions continue to show strong traction during the quarter. We did certain initiatives. For example, we enabled a seamless process through digital channels for transfer of funds to PM CARE and others who wanted to make a donation right. For moratoriums, we ensured an entirely digital online application with OTP based authentication. We ensured customer education both through our website as well as through many calls. To handle the volume of MSME as Manian talked about the fact we were 5% of the total volumes of the private sector bank, multiple bots were institutionalized within a day and I talked about eSign that is a completely paperless documentation for ensuring MSME customers to complete documentations for disbursement. I will now request Jaimin to take you through further highlights.

Jaimin Bhatt: This quarter post tax profit of Rs.1,853 crore which is compared to Rs.1,932 crore which we had last year a drop of about 4%. The larger contributors apart from the bank, Kotak Securities contributed Rs.169 crore which is up from Rs.110 crore last year. The life insurance entity brought in Rs.161 crore. Kotak Prime Rs.68 crore. The mutual fund business Rs.71 crore and the international subsidiaries brought in Rs.54 crore. Our capital adequacy at the consolidated level again continuing to be very healthy. We are at 23% overall and 22.5% of Tier-1. Our non-lending subsidiaries this quarter were close to Rs.500 crore of post-tax profits which is up 23% on a year-on-year basis and this period the non-lending subsidiaries' contribution to the overall post tax profit of the group is in excess of 25%. Our overall advances at the group level at Rs.231,000 crore and the customer assets included would be at Rs.245,000 crores which is roughly about a 4% drop on a year-on-year basis. Both our NBFCs which is Kotak Prime, and Kotak Mahindra Investments have seen a drop in their advances from a year ago. After the capital raise which we have done, our current book value per share including the current quarter profits stands at Rs. 383.80 p for the year.

We will talk about some of the major subsidiaries. I would first request Mr. Narayan who has oversight responsibility for Kotak Mahindra Prime to talk about Kotak Prime first.

Narayan S. A.: Thank you, Jaimin. Just to recap, in 2019-2020, the car industry was down by 17% substantially due to movement from BS-IV to BS-VI. Because of which, new car dispatch came down from December to January 2020 onwards. Post this in March, we were hit by the lockdown with practically no car sales happening in April and May 2020. All this contributed to the fall in advances in quarter 1, 2021. So vehicle advances as end of quarter 1 was Rs.16,143 crore. Similarly, other advances also down and was Rs.6,691 crore end of quarter 1. Car sales opened up in June. Wholesale dispatch number was about 56% of last June. We at Kotak Mahindra Prime also started disbursement in June, but with tighter credit norms and cautious manner. While net interest income of Kotak Mahindra Prime for quarter 1 is same as last June, the other income is down with income from processing and other fees coming down substantially due to drop in such disbursements. The fee income was Rs.12 crore against Rs.63 crore in June 19. While collection efficiency, as others mentioned, in June-July has improved. Collection continues to be a challenge in this lockdown and social distancing. The COVID provision in the quarter was Rs.38 crore in addition to Rs.50 crore in March 20. All this resulted in profit after tax of Kotak Mahindra Prime coming down to Rs. 68 crore. For the moment this is summary of my Kotak Mahindra Prime numbers. With this, I will hand over mike to my colleague Murli, Managing Director & CEO of Kotak Life, to talk about life insurance business.

Murlidhar Gangadharan: Thank you, Narayan. I will give you some idea of what has happened in life insurance and general insurance business in this quarter. This quarter has been in the backdrop of COVID and insurance business needs a lot of especially like a lot of face-to-face meeting to sell that products. So obviously, this has been affected. But during the quarter, we responded by increasing the level of activity digitally. We have huge focus on upsell and cross-sell and also greater digital adoption. COVID has done a lot of digital adoption during the quarter.

Our individual APE new business premium grew by 8% YoY against the industry degrowth of 18%. While the overall premium has gone down from Rs.1640 to Rs. 1207 crore primarily due to renewal premium which is being affected by the extension of grace period and lockdown. Kotak Life has very high persistency and is among the top quartile companies in terms of persistency for a long period of time. Our group business was also affected because of lower corporate activity and that has seen a drop there. Our product share has been very balanced. We have sold both par, non-par and unit linked products and continues to be very balanced, even our channel distribution between Banca and agencies is very balanced. Our individual protection share to APE saw a growth from 6.2% to 9.3%. Our total AUM has grown by 17.4% YoY. Our solvency continues to be very strong. We are at 3 times compared to 2.9 times at the end of quarter 4. Our PAT grew by 20.7% YoY in this quarter. The digital adoption was focused on 3 areas; distributors, customers and employees. During this period, we were able to generate 600,000 activity measures for sales in CRM.

Our engagement app for life advisors saw a huge uptick during this quarter. Our digital integration with a lot of ecosystem partners saw some growth. 95% of our policies are sold through Genie and in Banca channel it is as high as 98%. During the COVID period to ensure the customer services are not affected, a lot of digital assets, which we have invested in the past are put to use. And also, some new assets were put in place, which made customer service easier. And for the customers who could not visit our branches could ensure that all his services were looked after including payment of claims, changes of address, every service was being rendered to.

So a number of new services were introduced through our portal and on WhatsApp. For the employees also since safety of employees was a big thing and though we kept our branches open to the extent required, we ensured that the employees could operate from their home using all the employees services made available through mobile. So that's been about life insurance.

I will make a small comment on general insurance:

Our general insurance business, which was set up some time ago, has done pretty well during this period. It has shown good growth over the last few years, it has got a good stable balanced team and has got a good underwriting culture. Like KLI they are also on the top quartile on all the quality parameters and all the customer service parameters they do extremely well. Their underwriting practices are strong, and I think this quarter, they made profits, which was primarily due to lower claims and investment income, a good beginning for KGI.

KGI has also focused on digital, as digital channels contributed to more than 35% of its business in Q1 FY 2021. The bank sources close to 50% of the business digitally for KGI and it uses BPos, an end-to-end issuance system. 94% of their payments is digital.

Now I hand it over to Jaideep Hansraj, who is the CEO of Kotak Securities.

Jaideep Hansraj: Thank you, Murli. Good evening, friends. I am here to talk on numbers of Kotak Securities for Q1 of FY 2021. For the period ending June 2020, we generated a top line revenue of Rs. 459 crore , this is compared to a number of Rs. 411 crore for Q1 of FY 2020. Profit before tax for this period was at Rs. 225 crore versus Rs. 168 crore for the same period last year and PAT for this period was Rs. 169 crore versus Rs. 110 crore number in the same period last year.

I would like to talk on some of the macro developments, which have happened in the securities business over the last few quarters. One of the biggest positives has been the increase in the retail cash market volume over the last few quarters. The average daily volume or ADV as we call it, for retail business was at Rs. 37,000 crore odd in Q1 of FY 2020, which this quarter is up to Rs. 59,000 crore .

However, intraday volumes have also shown a significant increase over the last few quarters. Turnover through mobile in the retail cash market has gone up close to 3x in the period in question. And Kotak Securities mobile trading app has seen a greater than 2x jump in mobile trading volumes in this period.

I would also like to talk on some of the opportunities surfacing in the securities market. The total number of DMAT accounts, which one has seen in the last 12 months has seen a big jump. The DMAT accounts till June of 2019 were at Rs. 3.67 crore in number, which is now at Rs. 4.31 crore . This kind of an increase has not been seen in the securities industry for the last four years to five years.

Kotak Institutional Equities has also seen a good increase in revenue, market volume, market share for the period in question. Equities as an asset class is becoming popular with the retail investor, as being seen with the kind of increase in cash market volumes and the number of DMAT accounts. This, we feel has happened primarily because of the extremely low interest rate in the market and stress in the real estate sector.

I would like to talk on the logistic issues which we faced during the last three months, which has been one of the toughest quarters from logistic point of view. We enabled the business contingency plan for employees to work from any office of Kotak Securities, or work-from-home within the first week of the lockdown itself.

We launched our first contactless RM account opening app, which was activated within a month of the lockdown. This account opening app has shown a very healthy new account opening data in the months of May and June. In fact, 97% of accounts opened in this quarter have been digital. We enabled cloud telephony to record all trading calls and other critical conversations as required under law. We are in the process of revamping a number of our digital platforms, which will go live in the quarters to come.

There have been a lot of regulatory changes, which have been made or are in the process of being made post the Karvy fiasco late last year. Some of this regulatory changes, which have happened is:

#1. Ensuring that client assets are protected at all points of time.

#2. A clear Chinese wall between broker assets and client assets.

#3. Finally, collection of upfront margin in both the cash and derivatives segment will be introduced shortly.

Thank you, friends. With this, I would hand over to my colleague Nilesh Shah, who heads the asset management business for the group.

Nilesh Shah: Thank you, Jaideep. Good evening to everyone. At asset management business in the last quarter against the backdrop of ongoing COVID-19 crisis, we focused on servicing our partners and customers on an uninterrupted basis by accelerating digital mode of doing business. We are thankful to SEBI for their proactive approach in facilitating this shift. Today, about 85% to 90% of our transactions happen on digital mode compared to 70% to 80% in previous quarter.

Our average AUM for quarter ending June 2020 fell by 10% over previous quarter ending March 2020, primarily driven by mark-to-market changes. Drop in quarterly average AUM was reflected in top line as well as bottom line numbers despite initiating several cost control measures.

Hand holding our partners and customers through turbulent times was extremely critical. We increased our connect with partners and customers multiple times by adopting digital means. This ensured that we added 84,292 folios for the quarter ending June 2020.

Our focus remains on building sustainable flows through systematic investment plan. Our SIP market share has moved from 5.02% in June 2019 quarter to 5.93% in June 2020 quarter. Our monthly average AUM for June 2020 at Rs. 1.78 lakh crore is about 4% lower than our quarterly average AUM for March 2020.

Our offshore asset management was able to attract new investors in this challenging time. Our offshore AUM increase from Rs. 2.08 billion on March 2020 to Rs. 2.3 billion on June 2020 that flows in mark-to-market changes. Consistent investment performance is key to asset management business. I am happy to share that Kotak Mutual Fund was selected as Overall Fund House of the Year by Lipper.

Our asset management business remains the first and only signatory to United Nations principles of responsible investment. We will continue to manage money to improve environmental, social and governance standards in our portfolio companies under the aegis of UNPRI.

Over to you Jaimin bhai for the proceeding.

Jaimin Bhatt: Thank you, Nilesh. We should be open to taking questions from anybody.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakhar Sharma from Jefferies. Please go ahead.

Prakhar Sharma: My question is to Uday. As a team, you have done a great job in defending the asset quality of the bank. I wanted to get your perspective on how do you compare Kotak Bank as an organization, in terms of how we balance growth and asset quality, somewhere where HDFC Bank clearly excelled? And what is or differently in your view in terms of DNA and do you think at some stage, you could get into that direction or you think this way of working is best suited for Kotak Bank? Thank you.

Uday Kotak: Prakhar, thank you very much. Let me first say that each of us has our own style and own perspective on what is the reality, particularly in the COVID world. And you got to really go back to about six months to nine months prior to COVID, we had a very different approach to what we saw as challenges coming forward. And of course, different people have different views on that. But our view getting into COVID and before COVID, we were concerned about unsecured consumer retail and that is something, which we had highlighted in our calls in June, probably in September and December quarters last year. And therefore, we were fortunate to be going relatively light on unsecured consumer, which is in single digit exposures, which we have as a part of our balance sheet.

Therefore, we are very clear. We dare to be different if we think what we are doing is right. We do not necessarily like to copy the footsteps of anybody if we believe that we have conviction in what we do. Clearly, our approach to risk is entrepreneurial. We believe risk has to be taken if you can make money out of the risk we take. We do not want to be taking risks where after showing operating profit over time, and I again, want to emphasize over time, there is a leaking bucket called higher NPLs over time. And therefore, we like to see that returns on the loan we give over the period of the portfolio over say two years, three years, four years as we go forward. And if we believe the risks are worth taking, we will put our capital to work. And that is why I do believe that we did not see the risk return going into COVID in unsecured retail and slowed it down. We actually see this as an opportunity as we go forward. We think the banking and financial sector is going to be going through very significant challenges, including on capital.

As I mentioned in my initial talk, we do think that there will come a time and we will take a call to step on the accelerator at that point of time. So our approach is really stepping on the accelerator like entrepreneurs, when we see the risk return matrix working for us. And we will not shy away at that point of time. The second important point in financial services, which we have learned over the years is returns have to be looked at also for areas where you can make returns without disproportionately loading the balance sheet. And in that context, we see a huge opportunity in addition to the balance sheet risk, which I said we will step onto the accelerator at the right time.

We see huge opportunity in the markets related and distribution related businesses at this point of time with the advent of technology as well to drive market share and get a disproportionately higher share of fee and franchise income. Our brand in many areas, including wealth management and distribution products is continuing to be strong. We also have a strong presence in a whole host of businesses, whether it is a mutual fund business, our securities brokerage business, of course, our life insurance, business and general insurance business. And we have built all these effectively as hundred percent company's belonging to Kotak Mahindra Bank shareholder. Therefore, our approach is focusing on really getting a disproportionate positioning in the Indian financial sector at the same time, when we take risk, making money and returns for our stakeholders for the risks we take. And therefore, it is a philosophy, not trying to copy somebody, but having a conviction that if we pursue our purpose, we will get there sustainably in due course.

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

Rahul: Just couple of questions. First of all, the morat book, can you tell us, what would be the overdue customers who have not taken the moratorium so far, but were a part of the moratorium 1?

Uday Kotak: I think, Jaimin Bhatt, you answer this question. And Rahul, as I mentioned in my opening talk, that wherever we have had conviction that the underlying customer is viable over time, we have been ready to give morat and where we have had doubts about that, we have been harsher in giving morat 2.0 even if it means pain on our P&L whether it is the June quarter or otherwise.

Jaimin Bhatt: Sure, Uday. Now, coming to your question, basically, if you look at the overdue numbers, which were there when the moratorium began that would be roughly about Rs. 13,000 odd crore. And the philosophy of giving moratorium 2 has not been at all with respect to whether they were overdue or not. As Uday mentioned earlier, it was basically based on merits. If you look at what has slipped during this quarter out of those Rs. 13,000 odd crore about Rs. (+500) crores would be those, which were overdue as of February, but have now slipped into NPAs in June. The rest of them yes, paying up, yes we have seen collections improving decently in June over April and May and getting better.

Rahul: So just to get this number, right, Jaimin, so the reduction from 26% to 9.7%, that is about close to 16% - 17% reduction or predominantly almost all of them are making the payments, whatever amounts are due, they have made full payments? Is that understanding correct?

Jaimin Bhatt: No, I am not necessarily saying that they have not slipped into NPAs yet. So basically, yes, we are getting payments from them and we are continuing to get payments. Payments in June, significantly better than what we saw in April and May. But yes, it is still getting to a level where we have to catch up to getting back to the February numbers.

Dipak Gupta: Now, even to the Rs. 500 crores which Jaimin has said, add another Rs. 96 crore, which is SMA-2.

Rahul: Thank you Dipak. But the other question is on the real estate portfolio, would you be able to share what could be the moratorium numbers in that portfolio? Because there are generally some concerns around real estate of portfolio performance particularly during these times, so just wanted to get some sense on that.

Uday Kotak: I think Jaimin and Manian.

Jaimin Bhatt: Look, as we mentioned Rahul, real estate in the bank is sitting as part of the wholesale bank. At the wholesale bank level, moratorium 2 has been in low single-digits. And even there, it has been the SME segment, which is actually opted for a moratorium much more. Real estate segments, which are sitting as part of the wholesale bank would be in middle single-digits or thereabouts.

K.V.S. Manian: Just to give you a sense of the portfolio itself, as you know we have been saying that in the last few calls as well. Over the last year, this sector even pre-COVID was heading into some kind of slow growth. And therefore, we have been cautious on this sector even earlier and we have moved the portfolio to much higher rated developers and larger developers, and we have been doing that more than one year. Therefore, we are as of now comfortable with our exposures in this sector.

Rahul: Got it. Just one more question on the provisions. So you have adequately provisioned against the morat loans or the slippages as well. How do you see the trajectory play out over the next couple of quarters? Do you think we still need to do some more provision builds as the year passes by or we are comfortable where we are at this point of time?

Uday Kotak: Rahul, as I said, this is never normal world, right. One of the principles we have within Kotak and this is something which we as senior leadership have taken a view on, whatever we said today, if it is different from what being said one week ago, we are saying today, on what we think is present, okay. Therefore, what happens tomorrow is a very fast changing movement. You have to adjust and adapt yourself to that. Do we think there is going to be higher, significantly higher credit costs this year compared to last year? Of course and I do not want to give a number, but whether the number is 150 basis points, 170 basis points, 120 basis points, who knows? And not these numbers 150 basis points, 170 basis points, 120 basis points, I am not trying to guide you, but we do not know where this goes and where it stops or where or whether we can do better.

I think the clear picture on this will come probably after the December quarter. And in the meantime, remember one thing, there is also an increasing noise from borrowers to the policymakers, including industry associations, which I am associated with. The members are wanting one-time restructuring. So one of the dangers to the financial sector and particularly, I mean, I sympathize with the investors and the analyst community. You may not know the truth for a long time.

Rahul: Yes, precisely for this reason, the provision build that we are doing, would be a good guide for that, which is why, as I asked the question.

Uday Kotak: If there is one thing I would like to say, we will not be scared about slippages, we will not be scared about our GNPA ratios. We will not be scared about telling you our credit costs are high or low and we will provide what we think is required by us rather than being bothered about how we show ourselves in front of you every quarter.

Rahul: That is very helpful, Uday. If I may squeeze in one more question, since you brought up this point of restructuring. Let us say, if this is indeed allowed by the regulator, would Kotak Bank need to do some amount of restructuring, you reckon or our portfolio that way is fairly well-guarded?

Uday Kotak: I think our portfolio is well-guarded. Having said that, if we believe there are cases, which may become inherently viable, we will do that and I think, if restructuring does come, I do not know how policymakers are thinking, but if it does come, it will come with pain both on the banks and the borrowers. Therefore, the banks will be expected to make upfront provisioning on a restructured account not treated as an NPA. Therefore, I would be surprised, it is unlikely to be a free lunch, but it postpones the level of impact, not the fact that there will be some pain when you do it.

Moderator: Thank you. The next question is from Kunal Shah from ICICI Securities. Please go ahead,

Kunal Shah: So particularly on the growth side, maybe as you clearly highlighted that the maybe you are looking at the various businesses from the risk perspective. But currently, are you seeing any segments where it is worthy taking the risk and you would want to allocate capital out there.

Uday Kotak: I think, clearly, if you look at just the way we have done the MSME business, which was guaranteed by the government to the extent of 20%, we have Rs. 550 crore 30th June, Rs. (+4,000) crore as of today. There is an obvious easy one where effectively, there is a sovereign guarantee and you are putting money to work at risk spreads, which are significantly better than sovereign bonds. So that was a relatively easy one. We are also beginning to see some opportunity coming to us in our special situations fund where we put in about 15% to 20% of our capital alongside with fund investors. So we are seeing a whole host of flows there with significantly higher returns. So that is an activity, which is going on in full steam and we see a reasonable amount of our capital getting deployed in those special situations as 17.5% is our share to be exact. Along with institutions, which we have got as partners, we are very happy to put money in that where our risk return matrix is significant. We are ready to take calls, I think as Manian mentioned, we are getting pockets of SMEs where we think we are getting customers and ability to get share. Shanti mentioned within the consumer space, our focus is much more on secured retail. And as she mentioned, it is home loan, selectively LAP and essentially most secured side of the balance sheet at this stage in terms of lending. Unsecured too, the time will come, but we think that time is some time away not right now.

Kunal Shah: And what could be the potential in this if I have to look at it in terms of ECLGS then how much maybe currently we had done 40 odd billion, Rs. 4,000 crore, but how much would qualify and if we look on book today, what would be the potential out there? And even on the special situation funds?

Uday Kotak: Yes. On SME, I think we can still grow at least by a few thousand crore more from where it is on the guarantee by the government. So there is some more room which we have, and we are working very hard to get it as much as possible we can. And the special situation both in terms of special situation in a fund as well as on our balance sheet, right now, in terms of the flow of proposals we are getting, the sky is the limit.

Kunal Shah: Sure. And in terms of the strategy on the deposit side, given this kind of an outlook on the growth, so how should we look at it sitting with this kind of a surplus liquidity, despite this kind of a deposit franchise, we have some kind of drag on NIM, so what would be strategy out there in terms of deposits, we have cut the savings rate. But would we be willing to go much below the leaders out there in terms of the rate cuts?

Uday Kotak: No. Our focus is cost of funds and customer franchise. If you look at our mix on cost of funds, because we have a higher CASA mix versus term deposit, our cost of funds is now already up amongst the leading positions in the banking industry, okay. Despite the fact that we pay higher on our savings deposits than some of our competitors, because what we give higher on the savings rate, we have more than making up in the mix at now close to 57% CASA ratio. In addition to that, a lower cost of funds through the sweep deposit, which is another 7%. If we take our CASA at 57% plus the sweep deposit, which is also giving us a lower cost of funds, we are close to 64% - 65% of funds, which are coming at a much lower rate than term deposits, which is what most of our other players in the market have a much larger dependence on that compared to lower cost deposits across these three categories.

And Kunal, I think, there is still enough room for us to go in terms of getting our cost of funds down even further and while building the customer franchise. If you have seen our growth in NII, it has been significantly benefited by having cut the savings deposit rates. I remember on every call analysts would ask us, "oh! when are you cutting your rates?" So if you notice, we have dropped our savings deposit rates year-on-year on an average our cost of savings deposit from 5.5% now to around 4.22% in June, the average comes down further in July to September quarter because of some of the great drops have happened later part of the quarter. Therefore, our relentless advantage on cost of funds, we think is a continuing sustainable advantage for our stable and sustainable franchise. And that gives us a much better competitive ability to go out there and get better risks at even lower prices. And if we are to take risk, we will want better returns for that. Therefore, if you look at the core part of what I am saying, flat-to-negative Y-o-Y growth on advances, but an 18% growth on NII is a story by itself.

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

Adarsh: Couple of questions. Uday, just continuing with your cost of funds, right, just wanted to understand the AAA, AA market and mortgages right where we have been relatively a small player. Just wanted to understand, how large we could become right, given our cost of funds is like quite competitive. So say, a three year, four-year period, how do you see that because these were products, where you really wanted this sort of very low cost of funds. So how do you see this?

Uday Kotak: Yes, absolutely right. And I will ask colleague, Shanti. But there is one area, we are very focused on, as we go forward, it is mortgages. So Shanti, over to you.

Shanti Ekambaram: Thank you, Uday. If you just noticed, the last 18 months, I would say and you see the growth of our mortgages, we have been focused on growing this significantly because of the competition funds. If you ask me, as the market is unlimited and pre-COVID and post-COVID is a huge opportunity to tap this market. We have our distribution in terms of our branches well in place. And I talked about the fact that even in the first quarter, we started focusing and from the month of June we started discussions. So I think, we are crafting our strategy, but this is one big area of focus for the consumer bank. We have grown 25 odd percent in the last two years or so, and I think, big opportunity.

Adarsh: Got it. And Uday second question specific to you, on the RBI discussion paper restricting promoter CEO tenure to 10 years, what is your view? How well are we prepared in eventualities, if you can give your thoughts around that.

Uday Kotak: Okay, first of all, I will answer in two parts. The discussion paper is a discussion paper, we will wait for the final guideline. The situation as it stands currently, our board has approved renewal of Dipak Gupta and myself for a period of three years, starting from 1st of January 2021. That is the board application, which has gone into the RBI and the discussion paper is a discussion paper at this stage. Obviously, we will get to know about what the final rules and regulations are when they come. So, that is part one.

Part two is the strength of Kotak. We are very strong and keep one thing in mind that we as management have depth and you have seen it on this call, which is committed to long-termism and medium-termism as a core of building a financial institution. That is the core and that will remain , and our culture and conduct will be firmly in place. I would like to believe that this culture will be driven by management and by members of the board, which will include Independent Directors and Non-Independent Directors, including from the owner family, which includes myself, who continues to be a (+26%) shareholder of the bank and is committed to a philosophy and culture. As therefore in many ways, you have the owners, you have the board and you have the management. As a significant owner alongside with all the other investors, we are fully aligned to a committed culture as between shareholders, board and management to build a long-term institution and committed to entrepreneurship but cutting edge conduct and growth in opportunities which come in the financial services sector across the board.

Adarsh: Got it. My last question is on cost, right, given how things are changing so rapidly, right. The one thing that is there in control and probably changing for the positive is how digital all processes are getting. So pre-COVID to now we were already seeing a drop in cost to income. Does that accelerate really in a very significant manner in the next two years - three years?

Uday Kotak: I wish, I knew, if you can tell me, what COVID does? How human behavior will be? This is personal philosophy, in terms of how I see this play out. If you think about the pre-COVID world, the split between physical and digital, and I am just picking up numbers on what I think they were, and this is not based on any statistic. Pre-COVID era, the split between physical and digital was say 80 and 20. During the COVID era, the split between physical and digital move 10 - 90, that is 10 physical, 90 digital. In a post-COVID era, I would like to believe that the long-term equilibrium will be around 50-50 give or take. Which means, even if it is 50-50, the physical moves from 80 to 50 and digital moves from 20 to 50 on a normalization. Therefore, there is a very significant tectonic shift in the mix between physical and digital, but how it plays out? How much work-from-home? How much office? How much corporate office rentals of branches, the big question and the elephant in the room you going to ask is the future of branches. And on that point, if there is one thing which is clear is in the post-COVID world, the number of branches needed may be less than in the pre-COVID world. And again, since we like to make benchmark comparisons as analyst, the fact of the matter is we run with a much lower network of branches at 1,600 compared to much larger network of many other players. Therefore, we have the ability of being lighter and the big question is what will be the future of branches? I do not want to prejudge and say no more branches. But the world is changing, okay and we are watching everything. We are having deep introspection in every aspect we do. And we think there are opportunities for sustainable gain in the post-COVID world in terms of how we run our business.

Moderator: Thank you. We take the next question from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: I just had a question on the moratorium behavior in the sense that there is a school of thought which is emerging that if the customer has taken two rounds of moratorium in the sense he has not paid money for six months, there is a possibility that he is not going to pay money ever. And unfortunately, whether you call it as moratorium or restructuring, even moratorium is one form of restructuring, right. And history has shown that any kind of moratorium or vis-à-vis restructuring eventually results in a large amount of slippage eventually. So Mr. Kotak, I just wanted to know from your portfolio, do you think really there is a moral hazard which is there? And eventually, what could be the slippages from this book? And could it actually also be higher for the system? Your views will be appreciated.

Uday Kotak: Suresh, as always, the core question in everybody's mind. But here is my perspective based on what we are seeing in our book and broadly what makes sense from a common sense point of view at this point of time. Clearly, there is a higher probability of a customer who has not been paying for six months, to be a higher risk customer than a customer who has been paying his or her money all the way through the last six months.

In the early stages, which is morat 1, we were all grappling with a tsunami and were dealing with all of our feel. But by the time we came to morat 2, we got a clearer perspective on what principles we should use for giving moratorium 2. And therefore, the principles which we used for moratorium 2 as I mentioned was that is this customer fundamentally viable down the road? And therefore we tighten the morat and as you can see, we are at a number of around 9.6 odd percent as of July 10 compared to the earlier number. So there is clearly a focus on viability before giving a morat just off the cuff. So, that is point number one.

Point number two is even within the morat, which is I think an important aspect of mix, is 80% of the morat which we have given, has underlying security. Therefore, if we go with the fundamental assumption that a higher morat percentage inherently means a little more risk than lower morat percentage, then you go into looking at the segments you have done, as also the kind of security you have done. Therefore, greater analysis and the split. Therefore, for example, in our morat say on 9.65%, if an unsecured was 6% out of 9.65% versus on the current basis at around 1.6% - 1.7% of 9.65%. There is a very big difference in terms of the behavior post the six months. A customer who is an unsecured retail customer, who has not been in the habit of paying for six months versus a customer who has given a security will be very different behavior in the future.

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

Mahrukh Adajania: So I did miss the discussion on payment by moratorium 1 customers. Just wanted to know, did you give out any figures or you just said that…

Uday Kotak: No, Mahrukh, we have given out all the figures on our morat 2, which Jaimin has presented.

Mahrukh Adajania: No. Not moratorium 2, I am talking about customers who have not paid under moratorium 1 and have not rolled over to moratorium 2?

Uday Kotak: I think, Jaimin, can you answer this in terms of what we have given out?

Jaimin Bhatt: Yes. Broadly what we have said Mahrukh is we had people who have taken moratorium 1, 95% what has come into moratorium 2 are people who have given moratorium 1. So only about 5% has come in that is new. Of the people who took moratorium 1 we have seen collections improving significantly in the month of June and July compared to April and May. Though we are still some way to go before we hit the numbers of February, which is the pre-morat, the pre-moratorium period, so we still have to get there, but we are getting better and better.

Mahrukh Adajania: Okay. And just the increase in borrowings would be repo borrowing?

Jaimin Bhatt: Yes.

Mahrukh Adajania: The steep increase in borrowings?

Jaimin Bhatt: Yes.

Uday Kotak: Not even repo borrowing, it will be market repo borrowings. Mahrukh, just so that you know there are three rates of repo borrowings. One is repo is at 4%, then reverse repo is at 3% and the market borrowings on repo are between 3% and 3.2%.

Moderator: Thank you very much. We will have to take that as the last question. I would now like to hand the conference back to Mr. Uday Kotak for closing comments.

Uday Kotak: Thank you very much. This has been one of our longer conferences and meetings. And we have also changed the format for this meeting by giving a greater perspective of the bank and the group, including our NBFC subsidiary, our life insurance business, our securities business and our asset management business, to give you a perspective of overall, how we are doing within the framework of financial services.

We end this quarter with a hope that this COVID situation gets better faster than our current estimate, which is sometime between October to December quarter. And the second hope is that our current estimate on the economy is we get back to a run rate of 2019-2020, about a year from now, we end financial year FY 2020 with somewhere at (+90%) on a nominal basis and get to

100% run rate in second quarter 2021-2022. We hope that things turn out better faster, but our fundamental engine is prepared for this as the basis of our future. We also believe that this is a time for us not only to look at the challenges, but also opportunities, which come and which we are ready to take in an entrepreneurial way and seize them across the board, having an open mind and whatever shape or form it comes.

And with that, I would like to thank you all for a very patient one a half hour call and really appreciate your time. Thank you very much.

Moderator: Thank you very much. On behalf of Kotak Mahindra Bank, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.