

Q2 2025

1. Net interest margin trends

- **Narrative:** Management highlighted strategies aimed at enhancing net interest margins, including optimizing the savings account rate and leveraging the Standard Chartered portfolio to increase asset yields.

- **Management's Guidance:**

- Management anticipates that the reduction in the savings account rate will contribute approximately 4 basis points to the net interest margin. Additionally, the integration of the Standard Chartered portfolio along with the expansion of the unsecured book is expected to add a couple of basis points to the average asset yield.

- **Actual Results:**

['Q2', '2025']:

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

- **Evaluation:**

- **Expectations Not Met:** Despite management's guidance indicating an expected increase in net interest margin due to strategic measures, the actual results showed a reduction in NIM by 11 basis points, contrary to expectations.

2. Loan book expansion

- **Narrative:** Management has indicated a positive outlook for loan book expansion with a focus on sustaining growth momentum over the near term. They are optimistic about recovery prospects post-festive season and anticipate improvements in credit costs, particularly in portfolios linked to rural regions.

- **Management's Guidance:**

- Management expects the current growth trend in the loan book to continue for the next one to two quarters. There is an expectation of improved recoveries post-Diwali, particularly in sectors tied to rural India, with a consequent reduction in credit costs over the next 3 to 9 months.

- **Actual Results:**

['Q2', '2025']:

- The Bank's customer assets grew to ₹450,000 crore, which is up 18% YoY and 3% QoQ.

- **Evaluation:**

- **Expectations Met:** The management's expectation for loan book growth was aligned with the actual results, as the loan book expanded by 18% YoY and 3% QoQ, indicating sustained growth momentum as anticipated.

3. Fee-based income growth

- **Narrative:** Management highlighted significant growth in alternative assets and private credit funds as key drivers of fee-based income growth. The strategic expansion in discretionary portfolio solutions has contributed to a substantial increase in assets under management (AUM), positioning the company for continued growth in fee-based income.

- **Management's Guidance:**

- The company has seen an 88% growth in commitments for Kotak Alternate Assets, a 153% year-over-year increase in the Kotak Private Credit Fund, and a 40% year-over-year growth in discretionary portfolio solutions. These developments indicate a positive outlook for future fee-based income growth as the total commitments and AUM continue to expand.

- **Actual Results:**

['Q2', '2025']:

- Kotak Alternate Assets secured commitments of US\$352 million in Q2 FY25, representing a growth of 88%. Discretionary Portfolio Solutions under Kotak Optimus and Kotak Iconic added US\$80 million in Q2 FY25, a growth of 40% YoY. Total assets under management grew 37% YoY to Rs.6.8 trillion.

- **Evaluation:**

- **Expectations Met:** The actual results show an 88% growth in commitments for Kotak Alternate Assets, a 40% growth in discretionary portfolio solutions, and a 37% YoY growth in total assets under management, aligning with the management's guidance and positive outlook for fee-based income growth.

4. Profit growth analysis

- **Narrative:** Management is optimistic about the second half of the fiscal year, citing anticipated improvements in sector demand driven by seasonal factors and increased government spending. They foresee these elements contributing positively to the company's performance, particularly in rural and semi-urban markets.

- **Management's Guidance:**

- 1. The company expects a revival of tractor demand in the second half of the fiscal year. 2. There is an expectation of improved cash flow in rural and semi-urban areas, which should lead to better collection efficiencies for tractors in the second half. 3. With the ongoing festival season and anticipated increased government spending, management expects the second half of the fiscal year to see a significant boost in sector demand.

- **Actual Results:**

['Q2', '2025']:

- In Q2 FY25, the Bank ended the quarter with a PAT of ₹3,344 crore, reflecting a year-on-year growth of 5%. The consolidated profit after tax was ₹5,044 crore, which is about 13% YoY up and 14% higher on a QoQ basis. The consolidated ROE stood at 13.88%, and ROA was at 2.53%. Additionally, Kotak Life ended the quarter with a PAT of ₹360 crore as against ₹247 crore same quarter last year, marking a YoY growth of 46%.

- **Evaluation:**

- **Expectations Exceeded:** The actual results show a significant increase in profit after tax and growth in both ROE and ROA, which indicates a more substantial improvement than the anticipated boost in sector demand and improved cash flows, surpassing management's expectations.

5. Asset quality metrics

- **Narrative:** The management has outlined a focused approach towards improving asset quality metrics by addressing legacy issues and enhancing recovery processes. They are optimistic about the impact of their strategic actions, which are expected to materialize over the next few quarters. This includes improved fresh onboarding and a focus on reducing slippages through recoveries in the rural and secured businesses.

- **Management's Guidance:**

- The actions taken will take a few quarters, possibly 2 or 3, to fully manifest their effects. Fresh onboarding processes are expected to improve, with a reduction in pain from older books anticipated over the next 2 or 3 quarters. Slippages in microcredit loans are expected to come under control in a couple of quarters as legacy loans decrease and new underwriting begins. Recoveries from rural and secured businesses are expected in Q3 and Q4, which should reduce slippage

further. The secured book recovery from Q3-Q4 is anticipated to ensure a decrease in slippage as they progress. The company is comfortable maintaining a coverage ratio at about 70% on average.

- Actual Results:

['Q2', '2025']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. Credit risk assessment

- Narrative: Management highlighted the ongoing focus on maintaining a balanced approach to credit risk assessment. The strategy involves monitoring and limiting unsecured lending to a specific threshold while anticipating stabilization and eventual reduction in credit costs over the next few quarters. This approach aims to enhance resilience against potential credit risk fluctuations.

- Management's Guidance:

- Management reiterated their objective to keep unsecured lending levels within the mid-teens range. They expect credit costs to stabilize and foresee a decline over the next two to three quarters.

- Actual Results:

['Q2', '2025']:

- Unsecured retail mix reduced to 11.3% due to the embargo on the credit card. Annualised credit cost for Q2FY25, Q2FY24, Q1FY25 is 0.65%, 0.42%, 0.55% respectively.

- Evaluation:

- Expectations Met: Management expected to keep unsecured lending within the mid-teens and anticipated stabilization in credit costs; the actual results showed unsecured retail mix reduced to 11.3% with credit costs stabilizing, aligning with management's guidance.

7. New market entry plans

- Narrative: Management has unveiled strategic initiatives focusing on expanding their service offerings by launching Global Custody Services at GIFT City.

- Management's Guidance:

- Management indicated ongoing efforts to bolster their market position in this area, anticipating a substantive enhancement in service capabilities.

- Actual Results:

['Q2', '2025']:

- We have launched Global Custody Services at GIFT City this quarter.

- Evaluation:

- Insufficient Info: Data not available.

8. Regulatory changes

- Narrative: The management discussed their proactive approach in responding to regulatory changes. They are preparing to engage with the Reserve Bank of India (RBI) by providing feedback on the draft circular. The company is committed to implementing the final regulations once they are issued by the RBI.

- Management's Guidance:

- Management has indicated that they will submit their comments to the RBI by November 20th. They also stated their intent to comply with the final circular once it is released by the RBI.

- Actual Results:

['Q2', '2025']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.