Kotak Mahindra Bank Limited
Q2FY24 Earnings Conference Call

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MANAGEMENT:

Mr. Dipak Gupta – Managing Director & CEO
Mr. KVS Manian – Whole Time Director
Ms. Shanti Ekambaram – Whole Time Director
Mr. Virat Diwanji- Group President & Head Consumer Bank
Mr. Jaimin Bhatt – Group President & Group CFO
Mr. Paul Parambi – Group President & Chief Risk Officer
Mr. Milind Nagnur- Group President & Chief Technology Officer
Mr. Nilesh Shah – Managing Director, Kotak Mahindra Asset Management Co. Ltd.
Mr. Jaideep Hansraj – Managing Director & CEO, Kotak Securities Ltd.
Mr. S Sriniwasan- Managing Director, Kotak Alternate Assets Managers Ltd.

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Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Q2 FY24 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 conference call, please signal an operator by pressing star then zero on a touchtone phone Please note that this conference is being recorded.

I now hand the conference over to Mr. Dipak Gupta, Managing Director and CEO of Kotak Mahindra Bank Thank you and over to you. Mr. Gupta.

Dipak Gupta: Thank you. Good evening, friends. It sort of feels quite odd. As you are aware, Uday has done the opening remarks for the bank religiously for the past umpteen years. And here, I am a night watchman being the opening batsman for a change. I'm sure there are quite a few such parallels in cricket. Hopefully, several of them would have lived up to their expectations. The night watchman piece also reminds me you would have seen our announcement earlier in the day regarding receipt of the RBI approval for our recommendation of Ashok Vaswani as the next MD and CEO of the Bank.

Just to give you a quick background, Ashok is a veteran banker with a proven track record initially at Citigroup and then more recently at Barclays. He brings with him significant experience in building consumer and corporate businesses across various geographies, leveraging forward-leaning technologies. His recent stints have been as CEO of Barclays U.K. and as the Global Consumer and Digital Head of Barclays PLC. We expect Ashok to accelerate the pace of digital and technology at Kotak, focusing on delivering enhanced customer value.

Trends on the macro side, the India story continues to be exciting across most parameters. However, the emerging global geopolitical trend warrants increasing caution. Increasing oil prices are what we have to monitor closely. Its additive impact on domestic inflation trends need to be watched out for. Liquidity, again, is likely to continue being tight, whether driven by policy or by market pressures. And hence, as indicated by our Governor recently, this will keep pressure on interest rates.

Fortunately, the credit cycle still looks acceptable. However, continuing inflation and elevated interest rates will ultimately create uncomfortable outcomes. Net-net, for some time into the near future, I expect the growth to NIM trade-off to be better bet as compared to the growth to the credit trade-off and probably that's what we will be following.

Coming specifically to Kotak, Jaimin will take you through the numbers and by other colleagues. You will note that the financials look very balanced and comfortable across all parameters. Growth is well rounded. You will, however, see a more-than-expected drop in NIMs this time, but as Jaimin will explain about 15-16 odd basis points of it is unlikely to be repeated. SA continues to be a challenge, especially the higher ticket size ones. And if you exclude the government business related SA, I suspect this is going to be an industry-wide problem. That's all from my side. Jaimin, over to you.

Jaimin Bhatt: Thank you, Dipak. So let me take the commentary on the quarter. Let me take the consolidated numbers first. So if we look at the current quarter, we ended the quarter with a post-tax profit of INR 4,461 crore, which is roughly about 24% higher than what we did in the same quarter last year and about 7% higher than what we did in quarter 1 this year. The bank contributed about 72% of the overall profits with INR 3,191 crore. Kotak Securities being the other major contributor with INR 324 crore of post-tax profit, which was a growth of 45% over what they recorded a year ago.

Kotak Securities market share again continuing to grow from what was 5% in quarter 2 last year to 8.8% this period. Kotak Prime brought in INR 208 crore this year which is a tad lower than what they did last year. It was mainly due to a reduction of some profits on account of a rundown of bought-out portfolio which we had done a year ago. The vehicle finance business in Kotak Prime continued to grow, which was about 31% growth on a Y-o-Y basis and about 9% on a Q-o-Q basis. The other NBFC, which is Kotak Investments had a post-tax profit of INR 126 crore, which is significantly higher than INR 78 crore, which was a year ago which is on the back of a close to 50% growth in its advances book Y-o-Y.

The business correspondent entity BSS, which is largely microfinance, crossed a INR 100 crore per quarter mark for the first time, the post-tax profit being INR 108 crore this quarter. And as we had announced earlier this week, the RBI has also approved our acquisition of another micro finance company, which is Sonata, headquartered in Uttar Pradesh.

The life insurance entity brought in a post-tax profit of INR 247 crore which was against INR 270 crore they did in quarter 2 last year and INR 193 crore in the sequentially preceding quarter. The domestic mutual fund business brought in INR 124 crore with the overall assets under management at the group level increasing by about 28% Y-o-Y, coming to close to INR 5 lakh crore at the group level.

At quarter 1, we had a consolidated adjustment of about INR 375 crore, which was largely on account of dividends, which was collected from the subsidiaries.

Our customer asset at the consolidated level at about INR 428,000 crore, about 19% higher than what we did a year ago, continue to have healthy capital ratios. The overall net worth at the group level at about INR 120,000 crore, the bank contributing close to 75% of it. Both the NBFC's prime and investments having CAPAD ratio of 27% and 28%, respectively.

Life, again, having the solvency ratio reasonably higher at 2.7%, which gets us to an ROA at the group level of 2.68% and book value, including the profits for this quarter at INR 605 per share.

Coming to the bank standalone, the bank too clocked a 24% Y-o-Y growth in post-tax profit with bringing in INR 3,191 crore of profits this quarter. The net interest income for this period grew 23% Y-o-Y to INR 6,297 crore. We also saw growth of fees and services to INR 2,026 crore this quarter.

The other income, which is non fees and services part had a drop Q1 to Q2, one of reason being the dividend which came from the subsidiaries, brought roughly about INR 300 crore in quarter 1, which was not there in quarter 2. Similarly, there was a treasury profit in Q1, which also included what we gained on some security receipts, which is absent in Q2. This resulted in overall profit for Q2 being lower than Q1.

We continue to have a pretty large part of our book in AFS and HFT at 30th September 2023, 75% of our book was in AFS and HFT with the modified duration being net of OIS being 1.2 years. Our overall cost for this quarter, INR 4,000 crore, which is about 19% higher than what it was a year ago, but just a tad up from what it was in the previous quarter.

Other operating expenses this quarter includes certain amounts which we spent on promotion and marketing. Our pre-provisioning profits giving us a 29% Y-o-Y growth at INR 4,610 crore, provisioning of INR 367 crore coming to a post provisioning of INR 4,244 crore.

Our advances, before the IBPC and BRDS, we brought in a 21% growth on a Y-o-Y basis, and this quarter itself saw a growth of 6%, which is not annualized.

On a Y-o-Y basis, we've seen growth across categories, credit cards, unsecured personal loans, home loans, LAP, tractors, CVCs, microfinance. This quarter, of course, saw a growth in the corporate loan book also. Our unsecured retail book, including the microfinance activity stands at 11% of net advances. NIM at 5.22% this quarter, against 5.15% a year ago, though lower than what we saw in the previous quarter.

Mind you NIM is a calculation of balances on a daily average basis and not necessarily the end of period. So during this period, we did have our ActivMoney growth coming in at 28% on the quarter. Some of this also came in from movement from our lower cost deposit accounts into ActivMoney. This quarter also saw the bank going in for some higher liquidity buffers, which resulted also in the LCR ticking up on a quarter-on-quarter basis.

We also had some short-term funds including a spate of IPOs which happened, which got invested into liquid investments at marginal gains on that transaction, but this pulls down the overall yields and thereby the overall NIMs. Sequentially, as Dipak mentioned, we do have some one-offs this period, roughly about 14-15 bps.

As of June 30, the bank had 45.8 million customers, which is about 9.2 million higher than what it was a year ago. Asset quality at the bank, GNPA down from 2.08% a year ago to 1.72%, even in absolute terms, down from INR 6,200 crore to INR 6,087. And with a PCR of 79%, our net NPA now at 0.37% versus what it was 0.55% a year ago.

Slippages this quarter saw INR 1,314 crore, which did include things which went back into the normal category, about INR 300 crore of what upgraded during the quarter, therefore, net slippage is coming at just over INR 1,000 crore.

Our fund-based restructured standard under COVID and MSME at about 0.15% of our overall net advances. SMA2 continuing to be low, which is for borrowers over INR 5 crore at INR 155 crore. CASA at 48.3% as of 30th September, and capital adequacy, including this quarter's profits at the bank, again healthy at 21.7%, with most of it being CET1, which is 20.6% in and therefore, this quarter, we have an annualized ROA at the bank level of 2.45%.

I'd pass it on to Manian to take on the wholesale business.

KVS Manian: Hi. Thank you, Jaimin. I'll make a short commentary on the wholesale business. During the quarter, we saw some reasonable demand for credit offtake from both larger corporates and SMEs. This quarter, our advances grew at a rate of about 17% Y-o-Y and 5% Q-o-Q. But that is not the full story, as you know. We need to look at the credit substitute book as well.

Our credit substitute book witnessed some reduction as we focus more on loans with better spread than the low-yielding bonds. Given the current interest rate scenario, our focus on credit substitutes will remain relatively subdued. Overall, our funded asset book, including credit substitutes grew at about 10% Y-o-Y and 3% Q-o-Q, non-SME corporate would have grown just at about reaching double digits.

On the conglomerate side, we saw a shift of our book from bonds into advances, so it did show a healthy growth in advances. NBFC segment remains fairly robust. On the large corporate and mid-corporate space, if you recall last time I had apprised you of the fact that we have set up a separate vertical for mid-corporate. Both these segments are growing at a healthy pace and in fact mid-corporate is growing at close to 8% to10% Q-o-Q.

On SME, while it remains our focus area, we are seeing some irrational competitive pressures in this segment, and this is putting pressure on risk-reward metrics of this business, leading to some moderation in the growth to protect the profitability and ROE of this segment. We continue to scale up manpower and expand geographical footprint.

The SME book grew at about 16% Y-o-Y and 5% Q-o-Q. The quality of the portfolio continues to be healthy. We continue to be focusing on identifying opportunities to leverage our structuring and advisory capabilities to identify better yielding assets without commensurate increase in the risk. Overall, the corporate book continues to be healthy and with very negligible credit costs.

On the liability side, balances have been bolstered strongly by the custody flows in the offshore space. On the non-custody front, we are seeing lower growth rates than we have seen in the past. We continue to focus on transaction banking business, garnering higher wallet shares in collections and payment. Tax payment flows grew robustly this quarter at about 12% Q-o-Q. While DCM had a subdued quarter due to slippages in some large deal revenue, growth of our other fee income remained robust.

Technology remains a key focus area and our investment in this space have ensured significant improvement in stability of our systems through this quarter and with minimal downtime. FYN, our integrated corporate portal for trade, CMS and account services is ramping up quite well and we have now gone live also with electronic bank guarantee solutions. We also went live with a 365-day CMS solution during this quarter. Overall, the business remains in good health with healthy ROEs and robust profit growth.

Now I'll hand it over to Shanti to take you through the commercial banks.

Shanti Ekambaram: Thank you, Manian. I will talk about the commercial banking business.

The commercial vehicle industry saw a marginal uptick in volumes in Q2, 7% Y-o-Y for the quarter, though H1 was muted at 2% overall. This is on the volume. Some of this growth in Q2 is also due to larger wholesale dispatches in preparation for the expected festival demand series. At an industry level, the freight demand, viability and availability of return load continues to be stable with the usual monsoon sporadic disruptions. We expect this to get better as we get into the festival season. Within CV, in line with the trend in Q1, demand for passenger bus segment continues to witness significant growth at 33% Y-o-Y, whereas the goods segment, MHCV witnessed some demand while HCV continues to show a flattish trend. Our disbursement volumes grew 30% Y-o-Y and it continued to outpace the growth in the industry and we were able to improve some market share. Collection efficiency continues to be stable and we will build our books and market share in this sector with a focus on risk adjusted returns and more geographic distribution and footprint.

Coming to the construction equipment, the industry has seen a strong Y-o-Y growth of ~23% for H1in value terms, aided by a pickup in execution of infrastructure projects, earth moving equipment, road handling, material handling equipment, all of it saw a growth. We could see healthy growth in roads, semi-urban housing, airports, ports, also pick up due to the projects.

I think the overall macroeconomic environment and thrust in infra has really helped improve the demand for the construction equipment. Our disbursement in value terms grew 39% Y-o-Y in a quarter 2 and helped us gain market share. Collections are stable too, and we expect to maintain our growth momentum in this segment in the second half of the year.

Tractor, the wholesale tractor industry was down by 6.6 Y-o-Y on the Q2 and in H1 Y-o-Y, primarily on account of the delayed and uneven rainfall in a few states. Compared to last year, there was a drop in September because the Navratras are in October this year as compared to September. Our tractor disbursements in volume terms were up 9% YoY for the second quarter. We continue to marginally increase our market share. We continue to remain the market leader in this space.

Gross NPA is maintained at last year's level. Collection efficiencies have remained stable, but we are seeing a few states where collections are beginning to see marginal stress because of deficient rainfall. We expect this to get better as we get into the second half of the year.

Microfinance, our microcredit business continues its momentum growth and a healthy growth in disbursement of 65% Y-o-Y. We have presence currently in 12 states through a network of 800 plus BC branches and have a customer base close to 17 lakh women borrowers. Asset quality continues to be strong. Our microcredit business was able to ensure delivery of credit to low-income households in agri, allied and micro-enterprises. We foresee healthy credit demand in the rural economy in this business.

As Jaimin had mentioned, the bank has received the approval from RBI for acquisition of Sonata Finance, a Lucknow-based NBFC MFI. Sonata has operations in 10 states with a network of 540 branches and close to 1 million customers as of 30th September. We will work towards confirmation of this by the fourth quarter of this year.

On the agricultural SME side, if the growth was more muted because of lower utilization due to commodity prices as well as some amount of demand. The collection continues to remain strong in terms of the credit quality and we expect credit growth to pick up in the second half as we get into the better business cycle and busy period, will continue to be an area of focus for us.

I will now request Virat to take us through the Consumer Bank highlights.

Virat Diwanji: Thank you, Shanti. I will start with Consumer Assets. Our unsecured product in Consumer Bank continues to show positive traction with a growth of 44% Y-o-Y and approximately 9% on quarter-on-quarter basis. From a risk perspective, our unsecured loans portfolio continues to hold and is adequately priced for the risk.

Our mortgage lending business continues to grow well at 15% on a Y-o-Y basis. We see strong traction in the loan against property segment, which has been a traditional area of strength for us. This book continues to hold well on all parameters of collections.

We continue to invest in our cards franchise with overall credit card advances growing by 59% on a Y-o-Y basis. Our market shares have been steadily growing both on spend and cards in force. To deliver value to our card customer, we have been working on getting unique offers for them. I'm sure most of you would have noticed our sponsorship to Trevor Noah events recently. We also participated in the big billion day by Flipkart, Myntra and ClearTrip.

Overall, our investments in technology have helped us to improve productivity. Happy to share that this quarter, we have launched our revamped loan origination system built on Salesforce platform for our LAP business. We also went live with our new digital collection platform last quarter. Our story on digital acquisition continues and significant proportion of personal loans and credit cards continue to be sourced end-to-end digitally.

I'll now move to the business banking. Consumer Bank secured working capital growth has been strong with a growth of 21% on Y-o-Y basis. While the demand for new working capital secured loans have been strong. However, improvement in the limited utilization is relatively slow. We witnessed formalization, gathering pace in this segment. And as a result, our share on the lending to micro enterprise is growing.

Fueled by market demand and partnerships, the unsecured business loan segment witnessed a volume growth. Our delinquencies on both the secured and unsecured books remain stable in this business banking sector.

Now I move to liabilities. The total deposits have grown 23% on Y-o-Y basis with major contribution coming from term deposits. With an objective of growing retail and granular SA deposits, we have taken a couple of initiatives over the last two quarters, and we hope that this would give us some better results going forward.

As you know, bank had launched ActivMoney proposition in May '23 that allows savers to earn higher interest on the deposits. In this quarter, bank focused on scaling up the ActivMoney proposition by leveraging technology and analytical capabilities. Bank deployed intuitive engagement campaigns through multiple touch points, which helped customers to understand and subscribe for offering, which resulted in substantial chunk in mobilization of incremental deposits. However, this did have an impact on our retail SA, where some of the balances moved from SA to ActivMoney.

Continuing its thrust on customer centricity, the bank has kept focus on identifying customer insights via research and surveys to sharpen the customer value proposition specific to micro segments. Steps taken during the period have not only aided in acquisition of customers but have also resulted in better customer on boarding experience reflected in higher NPS scores.

Banks had recently launched a straight-through digital onboarding journeys for savings and corporate salary account opening. In second quarter, bank has invested in initiatives like search engine optimization and focused performance marketing, which has resulted in very good growth in acquisitions with this new channel of acquisition.

We have gone live with do-it-yourself journey for individual and sole proprietary customers to open their current account using video KYC and are seeing early signs of demand for digital fulfilment in the market.

With this, I'll pass on to Milind to give an update on digital.

Milind Nagnur: Thank you, Virat. Good afternoon, everyone. This is Milind Nagnur, Chief Technology Officer and will give an update on our Digital and Technology portfolio. We regularly share updates on the new digital journeys that went live, as Virat also alluded in his narrative. These are digital journeys for self-service opening up current accounts, savings accounts, personal loan accounts and so on.

These journeys are important contributors to business growth, customer acquisition and digitization. Equally important, however, are the invisible parts of the technology transformation, which requires their own deep set of technical skills. At Kotak, we have a silent but massive transformation underway on modernizing the back end.

These are technology changes that are required to transform and upgrade the back ends, which include networking, data centers, core product processors such as core banking platforms, loan processing platforms, general ledgers, operational systems, treasury platforms and also setting up of DevOps pipeline, builder tools and a culture of core engineers to build important pieces of core back-end platforms.

Top-performing engineers will not just be able to join a bank and start building platforms that mimic consumer tech apps. And for that, a massive enabling ecosystem is required to facilitate engineering skills to produce the outcomes. There is, of course, an easy path of just outsourcing these platforms, but we are not doing that. We are making investments in people, processes and enabling technologies to fortify our back end. And these will be important drivers to ensure stability, scalability, resiliency of our platforms and get more control on the technology behind the systems we use.

I call these invisible changes because if a firm is focused only on the visible front end and journeys they can easily lose track of the mega upgrades in talent, processes and back-end technologies that are required to fortify their own core. And this invisible back-end transformation requires leadership that is technically savvy that is hands on, and we have made a huge headway in getting that leadership in place.

We have made a great start to get this journey going. We have lots of work ahead of us to fortify the core to match the speed and agility of front-end journeys that our customers expect from us. The fruits of these back-end efforts will be durable and will positively impact many future quarters to come in a silent way. I hope that context was useful. And with that, I will turn it over to Jaideep.

Jaideep Hansraj: Thank you, Milind. I will talk of the numbers for Kotak Securities before some of the other highlights of the quarter. Total income increased to INR 962 crore in this quarter versus INR 776 crore in the corresponding quarter last year and INR 805 crore in the previous quarter.

The profit before tax for Q2 of this financial year is INR 432 crore, against INR 298 crore in Q2 of FY '23 and INR 292 crore in the last quarter. The corresponding PAT for this quarter is INR 324 crore against INR 224 crore in the same period last year and INR 219 crore in the last quarter.

Our cash market share showed some decline and is at 10% for Q2 of FY '24 and the combined market share showed a jump of close to 90% year-on-year from 5% to 8.8%.

For Kotak Securities, NEO is the newest trading platform and is a complete ecosystem of mobile, web, API and trading terminals. Currently, 80% of the futures and options volume and 70% of traded orders are through NEO. Total orders on NEO have grown 608% Y-o-Y and 100% Q-on-Q. Kotak Securities was one of the first few brokers to have launched the BSE F&O who has already taken a reasonably decent market share in the last 2.5 months since it launched the BSE F&O.

All new digital accounts which are opened in the last quarter or so is via NEO and hopefully by the end of Q4 all dealer-based businesses will also move to NEO. There are quite a few new age features which we are planning to launch on NEO in the next quarter or so, which will get unfolded as we talk.

There is a significant investment which is being made in revamping our back office operations and the CRM for a far better customer experience.

With this, I hand over to Nilesh to take us through the mutual fund business. Thank you.

Nilesh Shah: Thanks, Jaideep. Let me talk about our asset management business. In second quarter FY '24, our total average assets under management grew 18% year-on-year to reach INR 3.36 trillion. Our equity average AUM grew 24% year-on-year to reach INR 1.88 trillion.

Our active equity AUM market share grew to 6.47% in second quarter of FY24. Our SIP inflows for September '23 grew 22% Y-o-Y to INR 10.2 billion. Our retail AUM stands at 57% of total AUM. Our profit after tax grew 17% to INR 124 crore in second quarter FY '24 on back of AUM growth.

During the quarter, Kotak multi-asset allocation, NFO collected over INR 3,650 crore. Our total AUM across mutual funds, PMS, offshore, insurance and alternate assets grew 28% Y-o-Y to INR 4.98 trillion led by offshore funds and alternate assets. We continue to manage the largest India dedicated offshore fund, Kotak Funds India Midcap Fund with AUM in excess of $ 3.5 billion.

I will hand it over to my colleague, Srini Sriniwasan.

Srini Sriniwasan: Hi, we are building a comprehensive platform of alternative assets which comprises six different asset classes by raising capital from global institutional investors as well as domestic institutional and private client investors.

In the previous quarter, our Data Center Fund with commitments of $ 590 million had made an investment of $ 72 million in SIFY Infinit Spaces which is the data center arm of SIFY. Discretionary portfolio solutions under the brands of Optimus and Iconic presently manage $ 424 million effective 30, September, 2023. We have also raised a Private Credit fund to provide capital to mid-market companies. As of 30, September, we have raised $ 109 million from domestic investors in this particular fund.

I now hand over to Dipak Gupta.

Dipak Gupta: I am back with Kotak Prime. Kotak Prime had a quarterly profit after tax of INR 208 crore. That is roughly about the same level as what we had in Q1 and actually lower than what we had in Q2 of last year. Remember last year we had acquired portfolios of Volkswagen and subsequently Ford, so these have been running off and hence you see the decline in profitability. But otherwise, the base car finance business per se, including the dealer finance piece, is extremely robust.

We've seen demand being slow at the lower end of the car business. However, SUVs and top-end premium segments continue to be growing very well. There is a buildup of dealer inventory because some of the past festivals have not necessarily gone down well. Fingers are crossed for how Dussehra and Diwali will be.

On to Kotak Life Insurance. Kotak Life Insurance had a muted quarter. The profit of tax for the quarter was INR 247 crore. If you see the individual regular premium business that has been slow in terms of growth, we were probably caught on the wrong foot in our aggression on the non-par side. Traditionally, we've been pretty aggressive on the non-par side of the marketplace, but this time we were not sure about the direction in which interest rates were moving and hence we were cautious and that probably impacted some of the individual regular payment. Otherwise, as we build up Q3 and Q4, the growth momentum should continue.

With that, friends, I will hand it over back to the operator for questions. Thank you.

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

Kunal Shah: Yes, hi. So, firstly, with respect to this 14 bps- 15 bps of margin one-off, which will not be repeated, I'm not sure if you highlighted the reason for that and maybe where we are seeing it. Or is it more to do with the TD Sweeps and that's the reason you are confident that it will not come through, maybe that will stabilize now?

Jaimin Bhatt: So Kunal, let me just take that. If you take the obvious ones, it is like you had the ICRR impact this quarter, which was not expected, it has gone. The liquidity buffer, which I talked about earlier, which we may continue to have that, but will not be as much as what we had in this quarter. So it's not that it is completely tapered off, but that's not likely to be at those kind of levels. I also talked earlier about the fact that we had some short-term inflows, which had to be kind of invested into short-term investments. Now on a marginal basis, this gives you positive returns. But if you look at the calculation of the NIMs, they kind of depress the yields overall because the denominator just flows. To that extent, the extent of those kind of marginal or short-term money which comes in could be different. So if I look at my average earning assets because that's what goes into the denominator for calculating your net interest margins, the best is if you can have as high the number as advances because that brings you much better yields.

This quarter, if I look at sequentially, the segment or the share of advances actually has dropped from what it was a quarter ago. So maybe we do expect that this to getting back to the normal levels as we go forward. So that's broadly what we said is, some of this may not be of these kind of levels as we go forward.

Kunal Shah: Okay. So assuming that, if we purely look at spreads in terms of yields and cost of deposits, then that should help in 16-17-odd basis points kind of an impact?

Jaimin Bhatt: If I look at yields on advances, they have more or less held up. So yields on advances overall has not changed. So yes, the cost of funds would have gone up to that extent that would impact the spreads but yields on advances have held up. The rest of the commentary is on account of the other things like the change in the mix of funding, the cost of TDs going up and the rest. But effectively, overall advances yields have been holding up. Yes, overall cost of funds have gone up for two reasons, as one of you mentioned about the cost of deposits itself going up and the mix, which is the low-cost deposits share going down.

Kunal Shah: Okay...

Dipak Gupta: Let me explain Kunal. If you look at just yield on advances, it's about the same level. If you look at cost of deposits, it's up by about 20 bps, yes. So roughly, that's the NIM drop. The delta of 15 bps is arising out of all the other aspects, which Jaimin mentioned, most of which is unlikely to repeat next quarter.

Kunal Shah: Okay. Great. Yes. That answers the question. And second one now that the event is over with respect to CEO appointment, if you can highlight in terms of maybe how many names were shared with RBI and in terms of the order in which it would have been shared. And finally, we thought now, Vaswani getting appointed as a MD & CEO

Dipak Gupta: Kunal, I don't get your question, but that's not relevant. The RBI has given its approval to our recommendation. I guess that's good enough.

Kunal Shah: Okay. Thanks. Yes.

Moderator: Thank you. Our next question is from the line of Rahul from GS. Please go ahead. The line for Mr. Rahul has dropped. Our next question is from the line of Abhishek M from HSBC. Please go ahead.

Abhishek M: Hi, good evening. So my question is on cost of funds or cost of deposits. How far along are we in the re-pricing? And how much more to go from here? If you can give a sense of that?

Shanti Ekambaram: If you look at the average tenor of our liabilities which we've been talking about, it's roughly about 10 months to 11 months. And if you look at the interest rate cycle, we more or less are close to closing the 10 months to 11 months. So my sense, except for global factors, tight liquidity, increase in rates otherwise, we're more or less there on the re-pricing, maybe a quarter or so. The cycle of re-pricing has come its distance. That's the way I would put it.

Abhishek M: Okay. And given that your card rates are mostly roughly around 7-ish at least in the one year to three year bucket where you're getting most of the deposits, that would leave about 50-odd bps on the TD side, 50 bps, 60 bps on the TD side for re-pricing, right? So that catch-up could happen in a quarter given the short tenor of liabilities?

Shanti Ekambaram: I think a lot has happened. That's not correct, yes.

Dipak Gupta: No, that's not the catch-up. That is not just TD.

KVS Manian: Average cost of TD is not 7-ish.

Shanti Ekambaram: That's right. See, you're assuming that everything is coming in the one year range, right? You have sweep at 180 days. And if you see this quarter, we've had very strong sweep flows. You have TD at one year. You have TD at 270 days. So, I am saying, your average cost of TD is not in the 7% because of the range of tenures that has come through, that's why your average liability cycle is around 10-11 months.

Abhishek M: Right. Got that. And just secondly, Dipak, opening comment on growth to NIM trade-off will be better than the growth to credit trade-offs. Does that mean incrementally you'd be looking to do more of higher quality, let's say, home loan, corporate loans and something of that sort? Just wanted to get a sense of what you meant?

Dipak Gupta: No, it doesn't mean that. It just means that the credit cycle is still playing off and we are still pretty well off continuing the product mix, which is outlined. Yes, it's still good, it's safe to play the growth path assuming the mix of credit which we really have. Yes, rather than start being cautious on credit at this point of time. That's what I really mean by that.

Abhishek M: Thank you.

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

Jai Mundhra: Yes, hi. Good evening, sir. In your opening remarks, again, more or less the same question, you had mentioned that the growth versus NIM and growth versus credit cost, at the same time, at two quarters back, the bank had a view that corporate growth was the risk reward apart from credit cost also, but in terms of tenure and in terms of pricing, was also not that favorable, and the bank had let go of a few hundred crore of corporate deposits because of these issues. However, in the last two quarters, corporate growth has picked up really well. So has anything changed in the way you think on the corporate growth side, large corporate side?

Dipak Gupta: So I'll have Manian is answer that, but it's not really a deposit side issue. It's really the growth you're seeing is primarily driven on the asset side. So Manian, do you want to answer that really?

KVS Manian: Yes. So when you look at the growth you must -- like we always do, look at the advances and credit substitutes. So if you combine them that and look at it, the growth trajectory is not dramatically different. I would say the mix is changing more favorably. Advances give us better net yield than credit substitutes. So I would say that, it's more profitability driven than size driven and there's not a dramatic change in customer assets per se.

Jai Mundhra: Okay, sure. And in your view, has anything changed on the home loan risk reward? Because the trajectory Y-o-Y growth in that product, that has come off subsequently and now we are below system growth, whereas two, three quarters back we were like 2x of system growth that has climbed below system growth?

Dipak Gupta: I think you must look at two parts and you must look at the overall mortgage business per se, which is home loans and LAP together and I'll have my colleague, Virat try and answer your question.

Virat Diwanji: Yes. So if you look at in terms of purely home loans, I think on the disbursement front or the demand side it is working fine and we are growing there. But given that the interest rates have risen in the recent past, there are people who are actually part repaying or foreclosing their loans. And that's where the impact comes on the overall book size.

But if you look on the home loan and LAP together, I think our growth was in excess of 15% and LAP is a segment where we have been traditionally very good. And I think there is no -- what do you call, we are getting growth both in terms of new customers as well as the book is holding well.

Shanti Ekambaram: I just wanted to add to that. You asked about risk. I think the home loan product and environment is extremely stable, both home loans and LAP. I don't think there is anything about risk. There is high competitive pricing and you've got to make sure that you get your business based on pricing. And as Virat said, we have a combination of both LAP and home loan, but no issue of risk at all.

Jai Mundhra: No, ma'am, I was just highlighting that the home loan and LAP put together the growth in the last four, five quarters have been 45%, 40%, 30%, 21%, 18% and now 15% right? So there is a dramatic shift or dramatic moderation in the growth rate. You are still growing at 15% plus. But has anything changed because, of course, the rate cycle has changed as -- is anything apart from that one should take note of?

Dipak Gupta: No, it's not a risk issue. It is probably just a spread issue. So yes, as your ROAs and ROEs of pure home loans fall. Yes, the desire to do more of that reduces. And that's part of our product mix management on the asset side strategy.

Jai Mundhra: Sure. Yes, so that is all for me. Thank you.

Dipak Gupta: And then that's what I meant when I said really, we can still continue with the credit cycle still looks decent. So your product mix on the asset side is still not something which you want to trade off really.

Jai Mundhra: Right. Understood, sir. Thank you.

Moderator: Thank you. Our next question is from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh: Sir, just two questions. One is this recovery and upgrade that you are seeing from your net slippages, if we adjust for this intra quarter change, the recovery upgrade is like 64%, 65%. Is that something which you think is normal in the retail business? Or is it just elevated at this point?

Jaimin Bhatt: No, actually, it's fine. We've been seeing the recovery upgrades continuing to be a reasonable part of the slippages during this period. So this quarter as -- there are two different parts of recovery and upgrades. One is the 300 which we talk about is 1,300 slipped during the quarter. 300 out of those 1,300 got upgraded during the same quarter itself. So net-net, they didn't really slip into NPA for technical reason they slipped into NPA and got back. The overall recovery in upgrades is about INR 900 crore out of the 1,300 which includes this 300 crore.

Saurabh: Yes. Sir, basically 600 out of 1,000 that's the broad number 642 out of 1000 so that...

Jaimin Bhatt: No, the 600 will not be out of the 1,000, the 600 will be out of the previous period's balance.

Saurabh: Okay. Okay. Got it, sir. And sir, just very quickly, what's the LCR for the quarter now?

Jaimin Bhatt: We talk about group level, average would be 126% -127%.

Paul Parambi: Yes about 127%.

Saurabh: And bank.

Paul Parambi: Bank is 120%, about 120%.

Saurabh: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Chintan Joshi from Autonomous, Bernstein. Please go ahead.

Chintan Joshi: So thank you for taking my question. If I observe the CASA ratio, it is down 70 basis points this quarter. If I look at CASA as a percentage of total funds, it's down 90 basis points. I hear your focus on ActivMoney product and scaling up activities there. The trend in CASA are more marked for Kotak than for other banks. I'm wondering how these trends will evolve, where do you think CASA ratio will land at post maturity of the ActivMoney product?

Dipak Gupta: Well, there are 2 parts to what you asked really. I think CASA has CA and SA of the 2, the SA part, I see it as a challenge for the industry itself going forward. And you must look at SA even across other peer banks net of government business SA. When you look at pure customer non-government SA. I think it's a challenge for the industry going forward, Yes, because customers are moving from lazy money, low interest rates to term deposits. Definitely, one sees that as a phenomena. And one has to be worried about that as an industry as we look ahead.

The second part, which you mentioned is the choice really is, yes, money moves out of SA. It actually -- it either goes into term deposits or do you retain some of that money at lower costs through products like sweep deposits. And that's the strategy which we've gone in for and it does result in some amount of cannibalization of SA itself into sweep deposits. But in general, you do manage to lift your overall SA out of that as well as get incremental new deposits at a cost lower than the cost of term deposits. So net-net, it works well from a cost of deposit point of view.

Chintan Joshi: But do you have visibility on kind of where would CASA land for you after kind of the trends that you see?

Dipak Gupta: Well, again, you must look at it from a slightly different perspective. When you're talking about growth rates in the 20s, SA and CA and the problem is more with CA than SA in that case, takes time to move up, yes? CASA does not move up in steps. It moves up sort of more granularly at a constant slope. So it takes time to catch up. So I expect CASA to catch up and progressively start moving up once overall growth rates stabilize. We'll have to wait for that. Yes. But I don't see too much of downside pressure at the second half.

Chintan Joshi: Fair enough. And the second question was on lending yield. You highlighted on cost of deposit, the duration is 11-12 months, and most of it is done now. On the lending side, how much of the book is yet to reprice. There was a healthy 32 basis point increase calculated on yields this quarter. How much more can we expect how much is left to be repriced?

KVS Manian: On the asset side, I think largely the repricing is more or less done. We don't see -- especially given the scenario that we don't see repo rates rising. I think currently, the entire industry faces the issue of assets which are based on repo pricing and the liability cost rising, the basis different basis risk playing out slightly. So I don't see advances rates further going up.

Jaimin Bhatt: So about 70% of our book is anyway on floating rate. So they are linked largely to the repo or at best the MCLR rate. So about 58%-59% linked to repo and the balance to MCLR and what not. So these are reasonably changing as we go, as Manian mentioned, as long as those rates don't change, they will remain where they are.

KVS Manian: MCLR-based the loans may somewhat change, but repo rates are not likely to keep pace with the cost rises.

Chintan Joshi: Got it, but the 16% of the book has got duration greater than 1 year. Is there any more repricing left in that part of the book?

Jaimin Bhatt: That's fixed rate. That's a fixed rate straight.

Chintan Joshi: It doesn't have as much as pass through.

Dipak Gupta: Commercial vehicle EMI, tractor loans, all of those. Those are all fixed rates.

Moderator: Our next question is from the line of Manish Shukla from Axis Capital.

Manish Shukla: Jaimin, going back to the comment that you made on 14-15 basis points one-off. So just to be clear, from here on, does margins stay where it is or it still falls from where it was in the second half of this year?

Jaimin Bhatt: No, I can't make an absolute this thing, but the sharpness of what you saw this quarter is going to be nowhere near that. And what we are talking about is to that extent, the kind of fall, which we saw this quarter, the 14-15 bps is things which are not regularly happening every time. So difficult to say, it will not fall, but I think we still continue to be the highest net interest margin in the industry, I think, will pretty much remain there. And the sharpness will not likely to be of this variety as we go forward.

Manish Shukla: So this yield drag one-off drag of 14-15 bps doesn't repeat and hypothetically if cost of funds rise only 15 bps sequentially. Margins ought to stay where they are. It's a fair way right?

Jaimin Bhatt: Right, yes.

Manish Shukla: Second question is the high margin and low credit cost environment, some of that has gone as reinvestment in business. How do you think of cost ratios going forward either later this year or more into next year in terms of cost to income or cost to assets?

Dipak Gupta: So normally, before Jaimin tries to answer that, I would barge in and say, yes, downward, except the only caveat is my friend Milind Nagnur here to the extent he keeps on bringing in technology efficiency, some amount of tech costs will come in and what happens really is as tech costs come in, there is an intermediate period of a bubble where you run your existing costs and you spend on tech. At the end of it, and that bubble probably will be another 6 months really for us. You should see movement downwards of operating costs.

Jaimin Bhatt: I was talking about the fact that this quarter versus last quarter, our costs have been reasonably flat despite the fact that we spent a lot more on promotions, we got some one-offs as interest rates rose up, some retiral costs came down and what not, but I think pretty much an eye on costs as the industry develops.

Moderator: Our next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: So my question is on the credit card business, like we have been reporting pretty strong growth. So if you can talk about the key changes in our sourcing strategy? And what is the mix of NTB customers? And related to it on the overall unsecured piece last quarter, we guided for mid-teen levels of book size. So are we still keeping that intact because there has been some big concern on the overall unsecured loans?

Virat Diwanji: Yes. So first of all, as promised, yes, our unsecured is just 11% of our loan book. So we are very much there within what we had said earlier. Coming to your question on credit card, mind you, 92% of our credit card base comes from the cards of our existing bank customers.

And most of our new to bank acquisition comes through our existing customers of co-brand partners. And that gives us a very good comfort to grow both in terms of numbers and the spends. There might be a slight elevation in 90-plus numbers, but I think overall risk metrics on card business are absolutely in control. And there is nothing to worry at this stage as we see the card portfolio.

Dipak Gupta: Paul, do you want to give a flavor of card delinquencies as you see it?

Paul Parambi: Yes. So overall, as we look at cards and the broader unsecured, the slippages and delinquencies are still in line with levels which we are comfortable. We are not seeing anything which believe we should change trajectory or change growth. And some of our bounce rates, etc., all those metrics are sort of holding up right now. So nothing to worry about.

Moderator: Our next question is from the line of Gaurav Singhal from Aspex Management Limited. Please go ahead.

Gaurav Singhal: So just 1 thing. So the new CEO, can you give us a sense of when he will start because the current interim CEO term expires, I think, at the end of October and the RBI letter says needs to start off no later than January. So can you give us a sense of how this transition will happen?

Dipak Gupta: Well, the current CEO, term expires on 1st November so we had a Board meeting today. So we will be applying to RBI for extension of the current CEO. We'll have to wait for RBI's approval to see what the extension is like. On the new MD and CEO, hopefully, over the next I think, 8 weeks, we should have a better idea of when about he will be joining really yes. The approval is for the joining not later than 1st Jan. So hopefully, we'll probably have him before that. But we just got to get back and chat because the approval came last minute really.

Gaurav Singhal: Got it. And my second question is on NIM. So just so that I heard the correction on the previous question. So if there is like a 15 bps rise in cost of deposit, let's say, for example, next quarter, our NIM can be flat, because the 15 bps or one-off roughly may not repeat. Is that the right understanding?

Dipak Gupta: Yes, that's the right understanding.

Gaurav Singhal: Got it. And secondly on NIM, when will we reflect the Sonata acquisition in our numbers because hopefully that can be NIM accretive. And including the Sonata acquisition because we had given this 5% exit -- a minimum 5% exit guidance by the end of March '24. But if we factor in Sonata acquisition, do you think that can be better because it's proven NIM accretive.

Jaimin Bhatt: So just to take that, Sonata, we just got the approval from the RBI, and it's subject to a couple of other requisite approvals. We do expect that, as Shanti mentioned, to be done by the end of this financial year. Yes, it is a high-yielding book like microfinance. But at the end of the day, if you look at the size of Sonata advances, if I remember, it's about INR 2,500 crore. So while it is high-yielding net-net, it is about what 0.6% -0.7% of our overall advances. So it's not likely to make any meaningful difference in overall margin.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Dipak Gupta for closing comments.

Dipak Gupta: Thank you friends and wish you all happy Dussehra and Diwali. Thank you.

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