



Kotak Mahindra Bank Limited Q4FY23 Earnings Conference Call

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*Kotak Mahindra Bank
April 29, 2023*

Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Limited Q4 FY'23 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak, M.D. & CEO, Kotak Mahindra Bank. Thank you and over to you, Mr. Kotak.

Uday Kotak: Good evening, friends and welcome to the Conference Call after the Full Year Accounts for Kotak Mahindra Bank have been declared by the Board of Directors earlier in the day.

Let me first give a little bit of perspective. At a time when we are seeing a lot more turbulence in many other parts of the world in the financial sector, the Indian financial sector, particularly the Indian banking sector, is going through a phase of what I would call as Goldilocks. And the outlook as things stand today looks quite positive and promising despite the fact that there are risks to Indian growth coming because of factors external to India, because of a global trade and economic slowdown leading to an impact on our exports of goods and services. Subject to that, the domestic situation is much better, our macroeconomic fundamentals look good, our current account deficit is looking much more under control, and India seems to be at a reasonably good spot at this point of time. And that is reflected in terms of the numbers of Kotak Mahindra Bank for the full year as well as for Q4.

I'm happy to come back to you and report for the fourth quarter: On a consolidated basis, ROE of close to 17% on overall capital adequacy in excess of 23%. Therefore, with much higher capital, we have a decent ROE at that level of capital.

We also see our credit costs as overall for the year at historic lows. And that goes back to a very fundamental approach on risk adjusted underwriting as the core to our culture and philosophy. We're ready to take the risks, but would always like to have fair returns for the risk in the interest of all our stakeholders. We are also very focused as a financial institution on our number one responsibility, which is sustainability and resilience of the financial institution over long periods of time. And therefore, the approach is to build a very strong resilient fortress like approach to the nature of our balance sheet, which can sustain shocks from various directions in times of turbulence. At the same time, we continue with our broad commitment to grow at one and a half to two times India's nominal GDP.

If we look at the year ahead, and if we take the RBI estimates, the real growth expectation is six and a half. And even if we take a range of six to six and a half percent GDP growth, and an average inflation of around 5%, we're talking about 11 and a half

percent nominal GDP and multiplied by 1.5 times to 2 times that is what we think is our current estimate for sustainable growth as we go forward.

I also believe that India is also getting significant advantage of its geopolitical positioning, leading to economic benefits, particularly in the area of oil and energy. And that is a benefit which is crucial for India because of its significant dependence on energy on external sources.

In terms of domestic situation, the economy continues to show great resilience. And I think that we are at a pretty good spot in the cycle. Having said that, we need to be aware about significant turbulence around the world, and every day, we get some news, including the one last night about another banking institution in the developed world, getting into trouble. Therefore, Indian financial institutions like Kotak would continue to be focused on financial stability as its core, even as it pursues growth.

From the point of view of all our stakeholders, including investors, on behalf of my team and the board, I'm happy to say that we believe in growth, while keeping stability and risk management as the core to that future. We are also very focused on the transforming landscape in financial services, with technology and digital becoming a bigger and bigger part and we continue to invest heavily in it. At the same time, we are also clear, a significantly higher customer focus to our future is key. Therefore, we look forward to this as a very significant goal for us in the days to come, which is managing stability, managing growth, continuing down the path of transformation of Kotak on the technology and digital platform and a Arjuna's eye on looking at the customer's interest.

With that, I will now request my colleague Jaimin to take you through all the aspects about Kotak performance for the current year.

Jaimin Bhatt:

Thank you, Uday. Let me start with the consolidated numbers which we disclose earlier today. We ended this full financial year with a profit of 14,925 crores which is 23% higher than what we did in FY22. Profit for the quarter at the consolidated level was Rs.4,566 crores which is about 17% higher than last year. Our consolidated advances at about 3,59,000 crores, roughly 18% higher than last year. And as Uday mentioned, our capital adequacy at the group level is 23.3% which includes CET-I of 22.3%, which is largely equity. And both these have gone down by just about 40 bps from what the numbers were a year ago. And on that we've got a ROE of 16.9% for the quarter and 14.4% for the full year.

For this quarter, the bank brought in 3,496 crores of post-tax profit, and for the full year the bank had 10,939 crores.

Kotak Prime which is in the car finance business had a lower profit this year compared to last year. As we had explained in Q1, we had upfronted the brokerage costs and that is about 163 crores this year, compared to what it was in the previous period. Plus, there were COVID provision reversals last year, which is a very, very tiny number this year.

The microfinance business correspondent entity which we had acquired in 2017, which is BSS, has ended the year with a post-tax profit of Rs.297 crores as against Rs.83 crores in the previous period.

Kotak Investments bringing in 100 crores in Q4FY23 versus 86 crores in Q3FY23.

Capital markets had a slowdown this year resultantly, both Kotak Securities and Kotak capital have got lower profits in FY23 versus FY22.

Kotak Life ended this year with a profit of over 1,000 crores as against 425 crores in the previous year. Kotak Life continues to be having good solvency numbers with an overall solvency of 2.83x as against the regulatory requirement of 1.5x. Kotak Life has also seen a rise in embedded value by 17%, and we are now at 12,500 crores of embedded value there. We've also seen the VNB margin at Kotak Life at 38.8% as against 31% in the previous year.

The domestic mutual fund entities which is both the AMC and the trustee company bringing about 555 crores of profits this year, slightly held by investment profits which we have booked in the current year. At the group level, the FY23 saw a close to 30% contribution from the non-bank entities. Both NBFCs, Kotak Prime and Kotak Investments are pretty much capitalized and capital adequacy is in excess of 28% each.

At the bank, we clocked the year with 10,939 crores profit. The NII for Q4 at 35% over the same period last year. We had record NIM of 5.75% in this quarter, whereas if I look at for the full year, we clocked 5.33%.

Fees and Services saw contribution from both distribution and syndication income, as well as from banking fees, and we saw growth of 25% in FY23 versus what we did a year ago.

Employee cost in the current quarter, you'll see a small negative compared to the previous quarter, largely coming from a reversal or a benefit, which we got from a drop in annuity rate and benefit from interest rates. resultantly, the retiral cost in this period is significantly lower than what we had in the previous quarter.

For certain businesses, like POS or eCom or card transaction fees actually netted off some expenses, and we've made adjustments on the similar basis for the previous numbers.

Our non-employee costs in Q3 had a large number of promotional spends, which have been much lower in this quarter, resultantly, the non-employee operating expenses are also lower in Q4 compared to Q3. This year we added 8.5 million customers, 2.2 coming in the last quarter.

Our operating profit at the bank for Q4 at 4,647 crores which is about 39% higher than what we did in the previous year.

This quarter we also saw favorable order which we got with respect to income tax. And this enabled us to reverse some provisions which is about 100 crores in this current quarter.

At the bank, the asset quality remains a key. Our GNPA has come down from 2.34% a year ago to 1.78%. In absolute terms too GNPA has gone down from Rs.6,470 crores in March '22 to Rs.5,768 crores now. Net NPA at 0.37% with a provision coverage now at 79.3%.

Our slippages this quarter at about 823 crores, about 0.26% of our advances, of this, we already had 218 crores getting upgraded during the quarter itself.

Our fund based, restructured advances under COVID and MSME resolution framework currently at 718 crores which is about 0.22% of our advances.

Our SMA-2 as of March 31, which is fund-based borrowers with exposure of over 5 crores, is about 204 crores.

Our CASA now at 52.8%. At the bank standalone level too, we have a capital adequacy now at 21.8%, of which equity, CET-1 is at 20.6%. And for the quarter the bank clocked an ROA of 3% with 2.5% for the full year. That's broadly are the highlights of the current period.

I would request Manian to take through the Customer Assets.

KVS Manian:

Thank you, Jaimin. My short commentary first on the asset growth in the wholesale business. Due to the asset sell down of the DCM book that I had alluded to in my previous quarter call, and exit from some of the low yielding short term assets to optimize quarter end PSL cost, the book has not grown on EOP basis, but based on averages, the assets have grown in the mid-teens for the year, also, driven by our intra-quarter assets. We continue to focus on credit substitutes to combat irrational pricing pressures and optimize our PSL cost. The spread compression continues due to competitive pricing pressures in this business. SME and NBFC segments have both grown in the high teen on a YoY basis. We are also seeing good offtake from conglomerates. The large and mid-corporate segment and CRE segment have seen challenges in growth. In SME the credit quality remains excellent. The number of NTBs acquired in the year have grown even faster than the asset growth that you see.

With a good capitalization, demand pickup and collection efficiencies, NBFC sector also seem in good shape, and we remain focused on this opportunity. We have kicked off our new initiative on mid-markets by forming a separate focused team on this segment effective beginning of this year.

We have had a great track record in the CRE business with minimal losses over the years. Strong sales and collections of projects financed by us have resulted in significantly accelerated repayments, suppressing the growth of the book. Lending rates on vanilla products such as LRD remain extremely competitive and we remain very choosy on that. We are beginning to see good traction on the structured finance side. We have built a strong team with requisite skills in this area.

Our fee income continue to grow well. The fee growth is well distributed across processing fee, FX, trade and CMS. The DCM business performed well even though it came off marginally from the peak seen in FY22. We have continued to build a very strong franchise in the DCM business having done some unique and marquee LBO structured loans, bond and infrastructure transactions.

Credit costs continue to be very low. ECLGS portfolio continues to remain stable. Strong recovery from our old NPAs amounting to close to 300 crores especially in our SME business and LC business, further suppress our credit costs for the year.

On the liability side, we see healthy growth in the non-custody current account balances, significantly outstripping the asset growth. While we continue to add new clients in the custody business, the balances were impacted due to challenging capital market conditions.

On the digital front, our corporate portal FYN has scaled up really well. FYN is an integrated, corporate portal with single login and it has received very positive response from our clients.

Post receiving agency license, we have also started offering our statutory tax payment as a product and have seen a good offtake from our corporate clients on this.

I'll now hand over to Shanti for taking you through the rest of the presentation.

Shanti Ekambaram:

Thank you, Manian. I'll take you through the highlights of our commercial banking business. We showed strong growth trends during Q4. Let's start with commercial Vehicle. The CV industry volume continue to grow at a healthy pace with FY23 YoY growth of 34%. Freight demand and availability of return load continued to show improving trends signifying stable operator economics. However, some segments that depend upon EXIM traffic and e-commerce businesses have showed some slowdown. Within commercial vehicle, demand for all passenger bus segments has more than doubled YoY and all verticals such as staff, school, tour and travel are displaying increased demand. Collection efficiency continues to be stable and back to pre-pandemic levels resulting in significant recoveries.

Kotak has grown the commercial vehicles business quite strongly during the year, and our disbursements continue to outperform the pace of the industry with a 68% YoY growth that helped us improve our market share. We will continue to build our book and market share in this segment, with focus on risk adjusted return and deepening our presence across the geographies.

Construction equipment has seen a strong and consistent YoY growth of 29% at the industry level. Our disbursements grew in line with the industry and overall collections as a segment has been stable, which helped improve delinquency levels. Given the healthy allocation of capital spending by the government, we expect the demand in this segment to continue in this year.

Tractor Finance: The tractor industry grew at 12% YoY, backed by industry tailwind such as healthy monsoons and labor shortage. Collection efficiency improved significantly and are at pre-COVID level. We grew our disbursements quite strongly across both new and used tractors and have grown faster than an industry with a disbursement growth of 42% YoY leading to a step up in our market share which is now close to 11%. We will remain focused in this segment as we look to deepen our distribution and improve our market share.

Microfinance Business: Our microfinance business continued the strong growth momentum in Q4 with disbursements growing at 70% YoY. The overall FY23 advances

for this segment grew almost 100% vis-à-vis industry growth of 20%. We expanded our presence from five states in March '22 to 10 states in March '23 and added 252 BC branches. Collection efficiencies in this segment continue to be strong and have reached pre-COVID level. We see good credit demand in the rural economy and our microfinance business is well poised to leverage that in the coming quarters.

Agri SME: During the year, most of the prices of essential agro commodities like basmati rice continued to increase to the highest level due to lower stocks. Farmers in India have shown capacity to hold on to their harvest. I think demand from traders and processes remain positive. Overall quality of credit in this segment showed improvement with past default recovery and reduced stress impairment. It will continue to be a focus area for us.

I will now request Virat to take you through the consumer banking highlights.

Virat Diwanji:

Thanks, Shanti. I'll begin with a Consumer Assets. Our strategy to gradually build our market share in unsecured business continues. Our unsecured products in consumer bank are moving at a faster clip and we have shown growth of about 65% YoY and 9% QoQ. Our numbers reflect our continued focus on growing unsecured portfolio.

Our mortgages lending business continues to grow well at 22% on a YoY basis, and we see traction both in home loans and loan against property segments. This book continues to hold well on all parameters of collection in spite of increase in EMI linked to repo rate hikes.

We continue to invest in our cards franchise with our overall credit card advances growing by 81% on YoY basis. Our market share has been steadily growing both on spends and cards in force. We are strengthening our co-brand product suite and have gone live with Indian Oil for fuel centric cars.

We have also launched our NTB DIY journey, which is gaining traction.

With focus on SME segment, we have also relaunched our metro co-brand card that would enable us deepen our penetration in various segments of customers.

Our story on digital acquisition continues and significant proportion of personal loans and credit cards continue to be sourced end-to-end digitally.

I will move to Business Banking. Bank continues to focus on growing business banking franchise both on assets and liabilities. Our strategy to create a dedicated team for sourcing small ticket secured working capital loans across our branch network has shown good traction and going forward it would help us garner higher market share in

this segment. The demand for unsecured loans by business customers showed robust demand. However, the working capital limit utilization remains subdued in certain segments.

Digital current account opening assisted for small businesses has improved resource level productivity and customer NPS. The traction on Activ Money Current Account saw encouraging adoption by the customers. We believe this will not only help us in acquiring newer customers but will also assist in building balances of our existing customer base. With the aim of supporting SMEs in managing day-to-day needs of the business, we have curated offers for the non-banking needs across various categories under our 'Offers Beyond Banking' on our website for our customers.

We launched Instant Settlement on UPI, which helps current account customers to get instant credit, this will ensure traction in current account book.

Now, I'll move to liabilities. The total deposits have grown 16% YoY with major contribution coming from fixed deposit. However, SA deposit growth still remained subdued in Q4 as we saw some customers moving SA balances to debt mutual fund and life insurance to capitalize on tax benefit.

Traction on granular retail savings book, that is with balances less than 10 lakhs continued to grow, and it grew by about 10% on year-on-year basis and 3% on quarter-on-quarter. This denotes the core strength of the saving franchise in the bank.

In Q4, we launched couple of initiatives aimed at building our SA franchise. The first one was Floating Rate SA product aimed at stemming the outflows from the interest sensitive relationships. New Do-It-Yourself journey that allows customers to open all SA variants covering mass, premium and salary segments, and an "All New Silk Savings Program" which was launched for women customers, which comes with a host of features and exclusive benefits.

We were successful in building our term deposit book, which showed a growth of around 40% on a YoY basis.

Now, I'll pass it on to Dipak to take it forward.

Dipak Gupta:

Thank you, Virat. On the tech side, the transformation on the digital and the IT landscape continues. As we mentioned earlier, we have two key talents here; Milind, our CTO and Bhavnish, our Chief of Customer Experience, and they've been driving the entire tech charge. From a strategy point of view, they are basically driving what we call the six S's in technology – Satisfaction, Speed, Skills, Security, Stability, and Scalability. And as a first step towards each of these six Ss, what we are really in the process is investing

significantly in updating the technology backbone. So, that's very on the architecture side, the infrastructure side, very significant movement on the talent side. We've gone out and recruited very interesting senior talents on various aspects of infrastructure and architecture now, on the security side, and of course, on the data analytics, and journey automation side as well. And each of these has had a very significant impact, and we can see progress on the entire digital and IT landscape. In-sourcing of platform work is a very significant activity which we are driving, and all these new high skill engineering talents, which we are recruiting will help us achieve that faster and gain control of our platforms and businesses in a bigger way.

On the digital side, most of the metrics are up there. They are looking good, I'd particularly like you to see the lending ones, each of the lending ones has been inching up significantly now, and we've seen a reasonably high share of digital now in most of the new product offerings. The transaction volume on the SA Side continues to be practically 100% now through digital; we're at 98%.

Digital channels again, Virat mentioned the activity which you're seeing really on the do-it-yourself channels and assisted channels, both on the asset side as well as the liability side, and this is beyond what we are doing on the 811 side.

On the commercial and business banking side, Manian touched upon the activity on FYN as a platform, the single login over there. We've gone live with Phase-II now where we have import-export data processing, we have inward modeling and end-to-end field mapping now in place. And again, similarly on the commercial merchant side, a lot of activity and a lot of developments on the digital side.

With that, I'll hand it over to Jaideep now to take you through Securities.

Jaideep Hansraj:

Thanks, Dipak. Kotak Securities reported a total income of 581 crores for Q4 of '23. This is against 661 crores for the same period last year. The total income for FY23 is at 2,474 crores vs 2,502 crores.

PBT for Q4 is at 242 crores which was against 335 crores of the same period last year and 319 crores in the preceding quarter. The full year PBT is at 1,150 crores versus 1,334 crores.

The PAT reported for this quarter is 182 crores versus 252 crores for the same period last year. The PAT for FY23 is 865 crores versus 1,001 crores.

The cash market share for Kotak Securities for FY23 is at 10.5% versus 10.6% in FY22. And the options market share closed at 5.6% for FY23 versus 3% in FY22 Lower profits

have predominantly been because of a sharp fall of close to 30% in the average daily cash market volume, which one has seen.

On the digital front, a couple of points worth mentioning, 64% of cash market volume and 97% of options volume is actually done by the customer himself or herself. 78% of customer service requests are now processed with zero human intervention. And close to 30% of accounts opened are without again, any kind of intervention happening through DIY journey.

I'll now hand over to Nilesh to take you through the asset management business.

Nilesh Shah:

Thanks, Jaideep. Let me take you through our asset management business. Our total average AUM grew 5.2% in FY23 to reach Rs.2.87 trillion. Our equity average AUM grew 17.6% to Rs. 1.53 trillion. Our active equity AUM market share grew to 6.47% in fourth quarter FY23.

Our SIP business for March grew 21% year-on-year to Rs.8.7 billion. Our retail AUM stands at 55% of total AUM.

We continue to serve investor requirements across active as well as passive funds focused on local as well as offshore markets across debt, equity and commodities for retail and institutional investors. Our profit after tax was at 28% in fourth quarter FY23 to Rs.192 crores, led by profit on investments. Our total AUM across mutual funds, PMS, offshore, insurance and alternate assets grew 10% YoY to Rs.4.21 trillion, led by 127% growth in alternate assets.

I'll hand it over to Dipak Gupta.

Dipak Gupta:

Nilesh has touched upon the growth in alternate assets, that's been a very significant one. In the last one year we've grown from AUM of about 20,000 crores to practically now about 46,000 crores across multiple strategies, the strategic fund, the real estate fund, and the private equity fund the data center fund, a lot of new funds. Of course, this figure is not of funds already outlaid but includes committed funds.

Moving on to Prime, FY23, you'll recall been a pretty good year all over. Overall car demand grew practically by about 25%. Of course, this was aided a lot by the previous year Q1 being a poor year post-covid. March also was very good... not just because of March ending, but it was helped significantly by the change in emission norms, which fall in place from 1st April on to Euro VI. And all segments have done well in the month of March. However, this month is pretty slack actually and it doesn't seem as if it will pick up very quickly. Primarily, one is seeing inventory levels go up across most of our

segments. And the expectation at this point of time, of course, is that FY24 may just be marginally up in numbers and maybe marginally up in value terms.

We've grown across the year including in the last quarter, not just in line with the car segment, but also the two-wheeler financing piece has practically doubled in size during the year and the LAP business which we do out of Kotak Prime has grown. Overall, if you see from a quarter-on-quarter basis, profits have been flat. But on a year-on-year basis profits are down because remember, Jaimin explained earlier that we took a hit of close to Rs.160 crores on account of one-time booking of brokerage income. Net of that it seems pretty good.

Moving on to Kotak Life. Again, Jaimin took you through most of the financial metrics. The solvency is 2.83x now, significantly higher than the minimum required. Margins are pretty strong amongst probably the best in the industry, significantly aided by our share in non-participating products. The last quarter of course, like it has been for everyone else has been pretty good, aided by the expected change in tax laws.

Overall from a profit point of view, FY23 like Jaimin took you through is about Rs.1,000 crores, significantly higher than Rs.425 crores which we saw in FY22, but FY22 took a large hit on account of COVID mortalities.

With that, I'll hand it back to Jaimin.

Jaimin Bhatt:

Thanks, Dipak. Before I open for Q&A, just briefing the analysts on the call, last year, we had analyst meet on the 811 launch, and which is the five-year launch of 811. We had talked about the fact that we provide an annual update. With the current earnings update, we have attached the update for 811 for this period.

So, with that, I just request for opening up for Q&A please.

Moderator:

The first question is from the line of Mahrukh Adajanya from Nuvama. Please go ahead.

Mahrukh Adajanya:

My first question is to Uday sir. So, you again pointed out to Goldilocks and that does suggest a good growth outlook with benign credit cost. But how does that translate into earnings given where rates are peaking, would Kotak be confident of about a high teens growth and then how do margins play out, because EBLR book is very high, so what are the downside offsets to margin?

Uday Kotak:

Thank you, Mahrukh. I think we got to watch the situation on inflation and interest rates. And the key question is, there are two competing forces. One is a significant global slowdown. And on the other hand, in the Indian situation, inflation trajectory post the monsoons. And on the monsoons again, El Nino is an issue. And I was talking to one of

our directors today. This is what he said very interestingly. In every time India has had a drought, there has been an El Nino. But every time there has been an El Nino, India has not had a drought. So, we have to wait how the El Nino effect plays out and whether India gets impacted or not impacted. So, we will get a clearer picture on inflation post clarity on the monsoon outlook. So, maybe sometime in August, we will get a sense of how the inflation trajectory is playing out. Just if you think about it, we have been in one of the most significant interest rate increase cycles. And the increase in interest rates effectively has been from 3.35% because we were operating at the lower end, which is the reverse repo rate, all the way to six and a half percent. So, you had a 315-basis point increase in interest rates between May 2022 all the way through March 2023. Currently, it looks like we are at a real interest rate of give or take around one percentage point. So, sustainably, where does Indian inflation stop? And what is the real interest rates India would live with? And I think the trajectory on interest rates depends on that. If the monsoons go well, I think there is a probability in my view towards the second half or later part of the second half of the year, to see some moderation in repo rates. If the monsoons do not go as well, then I would be surprised if you saw any reduction in repo rates. Therefore the trajectory of the interest rate curve is very much dependent on that. Having said that, at Kotak, we are very focused on having a well-balanced book between fixed and floating, and between EBLR, that is the repo rate linked and the MCLR linked. So, we are also having a reasonable book in addition to what is linked to repo on the MCLR side. And our view at the bank is depending on the nature of the assets, we will have a mix of that. And at the same time, some of our assets like tractors, unsecured retail, commercial vehicles are all the fixed rate books or even microfinance, which are all growing reasonably well as well. So, we are well balanced. And we are not taking any extreme position in one direction. But, I mean, we do see this FY22-23 as an extraordinary year for our margins in banking, which are reflected in our numbers. Let me add one other point. Assuming the repo rate trajectory is not dramatically lower, our average NIM last year was 5.3%, while fourth quarter is 5.75%. At this stage, there is nothing which tells us that... at this stage, and therefore I'm not making any commitment, there is nothing which tells us that our NIMs need to be lower than 5%. Now whether it's 5.2, 5.3, 5.4, I'm not in a position to give you an exact number. But currently, our margin numbers look reasonably healthy. And as I've always said at every call, that Kotak is very focused on risk adjusted returns. For the levels of risk we take, we must make fair returns for all our stakeholders.

Mahrukh Adajanya:

So, just in terms of credit costs, the sector is sustaining at historically low credit costs. So, would it be fair to assume that below 20 basis points credit cost can sustain at least for the next three to four quarters, is that what we should be building in?

- Uday Kotak:** Right now, the book is looking good. We're not seeing anything which is dangerously spotty. But the bank will give you an update every quarter on how the bank sees the macroeconomic and the micro situation. But Kotak balance sheet I can say is squeaky clean and looking pretty good.
- Moderator:** We'll take the next question from the line of Adarsh from CLSA. Please go ahead.
- Adarsh:** On the deposit side, our deposits accreted by about 50,000 crores, a large part of it was bulk even within the term deposits you mentioned. From a more sustainable perspective, and we've seen some bigger brands and bigger banks really getting a lot of retail deposits. How should one look at that, because that's probably going to be a fuel for sustainable growth as you build the balance sheet in the next couple of years?
- Uday Kotak:** I think I'll give it to Virat, but I just must mention to you that between second half of March and now, there has been a little bit of softening in the wholesale deposit rates as well by about 30 to 40 basis points as reflected in the one-year CD market. With that background, I will request Virat to take it.
- Virat Diwanji:** Look, in terms of the deposit, just now as the interest rate pan out, retail which we call less than two crores have also shown growth, but with this kind of interest rate, the high networth individuals also want to lock in their money in that term deposit as what I call variation to their investment strategy. And hence, you find a lot of them coming between two to five crores as well. But we have seen good traction in that sense on the retail side. And retail customers who were earlier not getting engaged on the fixed deposit side in the last year has seen bringing in money into the fixed deposit side.
- Uday Kotak:** Manian, wholesale dependence of the balance sheet. Your thoughts please.
- KVS Manian:** So, like Uday just mentioned, wholesale rate through last year were high. But we are also seeing a softening of that. So, there is just now an opportunity to optimize cost by sourcing wholesale but our strategy to grow granular and increase the retail content in the deposit will continue. And in fact, like Virat said even in the saving side a zero to one, one to five, five to 10, all those buckets in amounts of granular deposits continue to grow well.
- Uday Kotak:** And let me just add one other point. For the scale of our balance sheet, we see no problem in funding the balance sheet.
- Virat Diwanji:** On the incremental basis also as far as the consumer bank is concerned, we are 50:50 on wholesale versus retail.
- Uday Kotak:** So, again, no concerns on funding the balance sheet.

Adarsh: Just not related to this, but there have been news reports about Kotak's expression of interest to acquire IDBI Bank. Any rationale there would actually be more getting a fairly strong liability and rate, granular liability this. So, just on a standalone basis, could you comment about whether you would ever consider looking at a PSU bank given that there can be cultural gaps or is that okay if it adds to the liabilities of the bank?

Uday Kotak: So, I can clearly not comment on a specific case as you asked, but I will make a more general point. We are sitting with consolidated capital of 23%. Our focus on any acquisition... and you have to go back to our history, is based on what will give us customers and customer segments where we think we will be able to add long-term sustainable value at appropriate valuations. You've seen our acquisition in the past of ING Vysya Bank in 2015. And we had a very specific logic of why we wanted to do it. We saw value in some of their businesses. And we believe we have a great strength as management to integrate significant banks, like we did in the case of ING Vysya Bank into our fold. Therefore, execution of such transactions is something which we are always quite confident as we have demonstrated in the case of ING Vysya Bank. If you remember at that time, it was the bank-to-bank; it was almost the same size as us, ING Vysya Bank. Also, we had to deal with the significant presence of unionized employees in ING Vysya Bank. And we have successfully done that in that case, in a manner which has been non-disruptive. And on culture. I believe culture is like the water of an ocean. It has to evolve. It has to develop, it is about an open mind, it has to be without bias. There has to be a sense of embrace, but surgicity of execution. So, as long as we can do all that, we are open to appropriate acquisitions across the financial services space with a clear view on sustainable value creation.

Moderator: The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: In terms of the corporate banking side, when we look at it, there have been sell-downs as well as chunky repayments. But in terms of the spread, so when we look at it in terms of maybe the choice between margins and growth, has that also impacted the corporate credit growth during the quarter?

Jaimin Bhatt: There is always a trade-off. Having said that, to illustrate my point... if I take you through a small math, at the time that CD rates for banks were close to 7.4, 7.5, banks were doing term transactions that is 7-10-year term transactions on AAA assets at 7.8 to 8% and BBB transactions were going at 8.2%. Any math will tell you that if your one year borrowing cost at 7.4, add on the SLR, CRR to that and add on the PSL cost to that, it doesn't make sense, but of course those deals happen in the market. So, it's not about the trade-off in margin all the time. It must make sense fundamentally, right, there must be a risk premium over the sovereign rate, there must be a tenor premium over one year. These are fundamentals to how you price transactions and if we see transactions which

we do not need, such fundamental requirement, we prefer to stay off. I can assure you one thing, that there are no transactions in the corporate that we cover that we do not get visibility to. We get visibility to every transaction that happen. But we choose to do some and don't choose to do other, if they do not meet our fundamental requirement of risk- return trade off. It is not only about, you can argue that cost of fund is 5.5, therefore lend below sovereign rate to corporate. You can still make a spread, but that is not fundamentally correct.

Kunal Shah:

And secondly in terms of the deposits, so again last time maybe you articulated that there would be a measured pace of branch expansion, but few of the leading private banks have indicated to gather a significant pace in this particular fiscal. So, any change in stance with respect to branch expansion and when we even look at productivity given that we have relatively higher proportion in metros but still in terms of from deposit per branch perspective, we are still in line or lower than the other private banks. So, how should we look at productivity and when should we expect it to maybe catch up with the peers?

Virat Diwanji:

Yes, so conceptually I don't think there is any change in the strategy the way in which we have carried out our branch expansion. Our focus on metro continues. means the proportion would be higher, but in terms of other things that we are seeing is lot of transactions are happening outside the branches. So, perhaps you need branches basically for the business customers and keeping that factor in mind, we will lead our next round of expansion. We had done close to 100 branches in this last financial year, and going forward in 23-24, we would do close to around 150 more branches. So, our strategy to do measured expansion on the network continues, keeping the mind how the things are developing on the digital front as well as the branch transactions and the customer needs are concerned.

Uday Kotak:

Kunal, I want to quote another point to you and all of us. How many branches does PhonePe and Google Pay have?

Kunal Shah:

Yes, so our focus is clearly there in terms of 811 digital acquisition

Uday Kotak:

No, all that I am saying is therefore all of us need to have a benchmark not only at what other horses are doing. We must also have a benchmark on how new cars are coming into the marketplace.

Kunal Shah:

Sure. And anything in terms of productivity if you can highlight? So, based on this when we say in terms of digital versus the physical branches and given our relatively higher exposure on the metros, that seems to suggest that eventually our productivity per branches should be relatively higher than where the other banks are. But still maybe at par or it is slightly at a discount to that, so what are the initiatives to scale that up?

- Virat Diwanji:** First of all, in terms of if you measure the way in which the classical method is CASA per branch, I think they are comparable to them for the key competitors is as we may call it. As we go more and more digital, obviously productivity will go up and we are using analytics to a great degree to improve our process. From that perspective, I think, going forward we will see good improvement in the productivity.
- Uday Kotak:** Again, right now, if I can add, Kunal, as they say, 'Adhi dhadhi hui hai', so we are in the process of making a very significant transition on the lot of areas on technology and digital which is work under process which will lead to significant productivity gains, but in the short run we run with a significantly higher manpower compared to the long-term productivity areas while the investment in technology happens in the next 12 months. But we will see significant gains as we go forward through this period and beyond.
- Moderator:** Thank you. We will take the next question from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead with your question.
- Roshan Chutkay:** So, firstly sir, want to understand what your views are on, we are seeing the a broad-based slowdown in anything consumer discretionary. If that is the case why is it that there is a massive growth at a system level when it comes to consumer loan book. That is the first question. Second question is, in the similar way, when you look at the corporate books, I mean corporate have very strong balance sheets now. Why is it that the corporate credit growth is slowing down so sharply and what are your views on the outlook on corporate CAPEX, that is my, I think my first question. And then I will take the next question.
- Uday Kotak:** So, Virat give you the answer the consumer side, what is it the reason why we are growing faster and then Manian on the wholesale side?
- Virat Diwanji:** Look, the demand still is significantly higher. Means, normally when with the interest rates going up you see a slow down on the demand. But that is not happening. We see, what we call a huge demand for both unsecured lending and credit card and hence perhaps we continue our focus on driving growth in that segment. Now, from where the growth is coming in, I think it is difficult to pinpoint a single reason, but perhaps the wage structure in the country has gone up, people's mind set to, what you call, today we have seen even people borrowing for holidays. So, those changes in behavior also is driving people to take more consumer loans and that is what we are seeing in the market place.
- K.V.S. Manian:** On the corporate side, credit of course, even RBI numbers, if you look at the RBI numbers, the credit growth if you take away the segmental growth of NBFCs, the growth is in single digits for several quarters and we are yet seeing significant turnaround in the corporate credit growth. I guess as the private investment that is being talked about

in terms of adding capacity happens over the next few quarters, one could see growth there. Having said that, for a bank of our size, I do believe that, like I said, even this year, if you look at the average growth we have growth around 16%, of course quarter end figures don't show that. That kind of growth is still possible to achieve.

Roshan Chutkay: And when it comes to the MSME, right, particularly the ones which are related to exports, right, if you look at the data, data seems to suggest that exports of MSME industry is collapsed. How should one think about it for a system? Should we think about any stress emerging because of this?

K.V.S. Manian: So, SME, broadly if you look at SME that is not the way we look at the SME growth number. Overall, the SME, if you look at the credit data, last CRISIL report on the SME sector, the average NPAs are 11%. But it is a huge segment, right. And the ability of institutions to pick up the right credit there because it is a very vast market and we have a small market share, we believe we can still pick and choose our credit there and grow that segment. And that is why you can see that SME growth is at about 18% this year. Again, of course there are some pricing pressures there, but I would say that segment is possible to grow irrespective of the secular growth of the sector.

Roshan Chutkay: Sir, my question was not pertaining to particularly Kotak Bank. Kotak Bank is in a great shape and very good risk adjusted return assessment and fantastic credit evaluation. The question is more to do with the system and how should one think about the, any pockets of stress emerging because of export of MSME related industry slowing down?

Uday Kotak: So, I am going to introduce one of my colleagues here who is part of our top leadership and management team who Heads the Risk Function, Mr. Paul Parambi. May I request Paul and he is asking more from a system point of view; how do you see the risk outlook.

Paul Parambi: When you see any risk in the sector which was because of various external factors, whether it is global factors or local factors, two years back we had the pandemic. This sector which potentially can get more impacted or which is more vulnerable is the MSME sector because obviously these are smaller companies. Having said that currently at least, as Manian had said, if you are a player who is not a very large market share player, it is possible to actually play very well in this space without by actually avoiding the bullets and taking really good credit risk. So, one has to be watchful right now because as Uday had mentioned initially, the global situation is turbulent. There are challenges around. Interest rates are higher. The capital markets of course anyway this segment doesn't have too much access to capital markets. So, one has to be watchful and make one's way through this.

K.V.S. Manian: I will just add one thing that we are doing the last couple of years, I think the ECLGS scheme that was done for SME and MSME was really very effective. It helped the sector

see through the pandemic. Unlike the big corporates which raised capital, either in the form of debt or equity, this segment required some infusion of funds and that the ECLGS was a great scheme. It actually helps sustain this sector well. So, right now, we are not seeing any incremental stress coming in this sector per se, of course on our portfolio not at all.

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

Abhishek M: Sir, just getting back to the growth question, you gave a guidance of 1.5 to 2X nominal GDP growth. Shouldn't you be at the top end of that range, somewhere around 22%-23% given that the base is still small in several segments and you built this entire franchise and you are gaining so much market share? So, just trying to think why you should not be at the top-end of the segment of that growth range.

Uday Kotak: I can assure you we will try very hard for that. That is something I can tell you. We will try very hard for that and we will work on that while keeping return and risk parameters in mind and subject to that we will certainly want to be getting as much as we can for our stakeholders and for creating long-term sustainable value. So, that is something which is a deep ingrained commitment, we also found ourselves sort of refocusing on things which we can actually add value and growth and that you have seen over the last couple of years, our outlook is certainly significantly more open to looking at growth opportunities across the board and we will be committed to growing as fast as possible within the parameters of risk and return.

Abhishek M: Right, and sir, just a sub question to that, So, specifically in corporate banking what is the outlook on demand, possible substitution by the bond market as rates cool off and your participation in these?

K.V.S. Manian: So, we don't, when we conduct our business we do not see any difference between advances and credit substitutes. So, we will play both of them as appropriate depending on the pricing we get and optimizing, like I said optimizing our PSL costs and spreads. So, from our point of view, it doesn't matter whether the money, the growth happens in the bond markets or the advances market.

Abhishek M: Sure. Thanks. And any update on the succession issue and when to do we hear more about that?

Jaimin Bhatt: We need to apply to the RBI by no later than 31st of August and the Board as well as the NRC is pretty much seized of it. There is a global search firm which is being tasked in getting that, pretty much actively involved and we will be applying to the RBI well in time.

- Moderator:** Thank you. The next question is from the line of Jai Mundra from ICICI Securities. Please go ahead.
- Jai Mundra:** This quarter, we have continued to see strong growth in unsecured portfolio, but at the same time the non-staff OPEX has reduced considerably, how could you look at both these things, I would have thought that these things move hand in hand. But there is a divergence in this quarter, so just wanted to get your views there.
- Jaimin Bhatt:** Jai, let me just take that. As I mentioned earlier in Q3 we had significant spends on servicing both at an overall level and at product levels that has been decently lower in Q4. The second one is in Q3 we had some one-time expenses which we had taken and we don't have any of that in the current quarter so yes, Q4 costs are marginally lower than what we had in Q3.
- Jai Mundra:** Just a data keeping question, sir I you can give the RWA number for standalone bank and do we continue to have AT1 bonds I think around 5 billion odd numbers. So, RWA and AT1 bonds in the standalone bank. Thanks.
- Jaimin Bhatt:** AT1 bonds we had issued preference shares about 5 years ago. So, that is the only amount of what we have there. The RWA I don't have the overall number, but RWA is about 76% of our total asset book, which if I look at one quarter ago it was 77%.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Axis Capital. Please go ahead.
- Manish Shukla:** FY23 most banks are likely to exit at historically high margins and historically low credit costs. So, what K.V.S Manian alluded to on the wholesale bank, what is the risk of the pricing gets extremely competitive in SME and retail as well and thus pressuring either margin or growth for FY24 and beyond?
- Uday Kotak:** I think we gave a clarification that if you look at our NIMs, fourth quarter is 5.75%, full year is 5.33% is one of the current way the interest rate seems to be and our reasonable view currently, we would still like to believe that we would be at the (+5) handle average, last year was 5.33. We should get the 5 plus handle, as the things looks today. And this is not guidance, but a judgment of how we see the situation currently, (+5) handle for 23-24.
- Manish Shukla:** Sure. And going back to the question on branches. We see that data across banks that average liability balances in branches are significantly higher than on digital accounts. So, in that context and given the pace of growth at which you have been growing and where you aspire to, just wanted to circle back on the branch strategy there because

digital accounts will not **necessarily** get you the value, they definitely get you the volume.

Virat Diwanji: Look, there are two aspects to this. One is when you acquire a customer digitally yes, he may not have a value, but he is obviously available for us to do a cross sell and that is where have been capitalizing on it in the recent past. So, we do see a value in acquiring a customer digitally because the cost is significantly lower and hence the focus on acquiring customer digitally is there. Whereas the physical branch, because today just keep in mind that customers before starting a banking relationship, he does look at whether there is any bank branch in this close vicinity or not. So, to give them that kind of confidence we will need branches and hence we are taking measured steps in growing our network.

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

Saurav: Just one question, you have given a range of metrics on 811. Will 811 as per your internal P&L be profitable right now and will that disclosure correspond to the BSE disclosure you have given on digital banking unit. Thank you.

Jaimin Bhatt: As we have given in the 811 disclosures, last year we have not, but if you look at the segmental disclosures there, which includes 811, it is not just 811.

Saurav: So, digital banking unit in that BSE will have 811?

Jaimin Bhatt: The digital banking units which the RBI and the government has asked us that is also part of the segment.

Moderator: Thank you. Ladies and gentlemen, as we have reached the end of the call, I would now like to hand the conference over to Mr. Uday Kotak for closing comments.

Uday Kotak: Thank you very much. We look forward to a good year ahead in terms of 2023-2024. I think Jaimin and all my colleagues have taken you through a full analyst report. And I will end this with just a quote which was made by Mr. Elon Musk to end this conference and I'll just repeat it. It is there in your presentation, "When Henry Ford made cheap reliable cars, people said, 'Nah, what's wrong with a horse?' That was a huge bet he made, and it worked." Thank you very much.

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