Kotak Mahindra Bank Limited
Q3FY24 Earnings Conference Call
IST 4.00 PM on January 20, 2024

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Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Q3 FY'24 Earnings Conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashok Vaswani, Managing Director & CEO of Kotak Bank. Thank you and over to you, sir.

Ashok Vaswani: Thank you. Thank you so much. I am absolutely delighted to be here with all of you for the first time as the CEO of Kotak Mahindra Bank. As you all must be well aware, I have been in this assignment for only about18 calendar days and I am still, you know, working my way, getting my arms around the place. But I am very cognizant that these are incredibly special times and that Kotak is in a particularly special place, which I will come back to.

If you just take a big step back, globally, we have had unprecedented volatility over the last few years, starting with the COVID pandemic, significant injections of liquidity by virtually every government across the world which then led to very high inflation, which was only previously seen in maybe the 1980s, and then unprecedented tightening by the central banks across the world to fight inflation.

And central banks will have to continue this fight to bring down inflation to a sustainable level, but yet protect growth. And as if all of this was not enough, the geopolitical situation has made it extremely difficult.

With this kind of backdrop, actually India has been relatively speaking protected and resilient with strong economic growth, business optimism, continuous rise in public expenditure and a pickup in private sector capex. As I look out, India actually looks like quite a shining star amongst the various other economies in the world.

The other thing about India which is really truly transformative is the digital stack that has been built here. I believe that the digital stack has transformed the country in more ways than just meets the eye. This will continue to be a very significant opportunity and a change agent for the country and for us.

In this context, Kotak occupies a very special place. Kotak is a very strong brand, has a very strong reputation, very well capitalized and is an incredible platform offering the full array of financial products and services. Kotak has done very well and really the challenge and the story from here on is how we scale? And scaling is not just for the size of scale, scaling is for remaining and becoming relevant as India steps up to become the third largest economy in the world.

But for today, let's focus on the Q3 numbers and I'll turn to Jaimin to help us walk through the numbers.

Jaimin Bhatt: Thank you, Ashok. Friends, just to take you through the October-December '23 numbers which we disclosed earlier today, let me start with the consolidated numbers first. This quarter, we closed the quarter with a post-tax profit of INR4,265 crore which was compared to INR3,995 crore in the same period last year. If I take the 9-month period which is April-December '23, we brought in INR12,876 crore versus INR10,359 crore in the same period last year. The bank's contribution this quarter was INR3,005 crore. The bank did take some hits on a couple of counts. I will talk about that as we get into the details of the bank.

On the other entities, the securities business brought in INR306 crore of profit which is about 27% higher than what they did in the same period last year. Securities also improved its market share from 5.8% last year to 10.3% this quarter with a significant increase in the derivative market share.

Kotak Prime contributed INR239 crore this quarter versus INR225 crore in the previous year. The vehicle loan book in Prime has grown sharply on a Y-o-Y basis. Kotak Investments, again on the back of about 35% growth on advances, has taken its post-tax profit for the quarter up from INR86 crore last year this quarter to INR157 crore.

The microfinance business correspondent entity which we have called BSS, brought in INR104 crore of post-tax profit for the quarter and for the nine-month period INR307 crore.

The life insurance entity this quarter had a post-tax profit of INR140 crore and was hit on account of the change of commissions which happened. I'll have the management talk about that.

The domestic mutual fund brought in INR146 crore. Last year same quarter we had some one-time capital gains which had taken that number up. Our overall group-wide assets under management have grown 32% on a Y-o-Y basis and are now in excess of INR5 lakh crore. Our overall customer assets at the consolidated level at INR4,50,000 crore which is about 19% higher than what we were a year ago.

The capital position across the group is very healthy. Overall, our net worth at INR1,25,000 crore, apart from the bank, the two NBFCs having capital adequacies in excess of 25%. The life insurance entity having a solvency of 2.66X. Capital adequacy at the overall consolidated level with a CET1 of 21.2%.

Among the subsidiaries, the other notable thing during the quarter was the fact that in November we did announce a signing of an agreement with Zurich Insurance for them to take initially a 51% stake in Kotak General Insurance which would be through a combination of primary and secondary transactions and over a period of time to increase that to 70%.

Let me come to the standalone bank. This quarter we took a profit of INR3,005 crore as against INR2,792 crore a year ago. And for the 9-month period, we clocked INR9,648 crore which is about 30% higher than the 9-month in the previous period.

As I mentioned, two hits we got this quarter; one was, a INR190 crore pre-tax provision on investments in alternate asset investment funds. This is pursuant to the RBI circular which was of December 19. I must say there is no ever greening which we have as against the INR190 crore of provision which we have taken which is the quantum of money invested in specific funds. The outstanding exposure which we have on the investments which are common is all of INR65 crore. Plus, the bank has no investments which are in subordinated units with priority distribution at all.

The other hit which we got this quarter was on Trading and MTM loss on the fixed income book net of OIS which is this quarter taking a hit of INR168 crore. A large part of this is on the OIS book. Now, this is a book where the bank is locking a spread on the security through OIS for the life of the asset. This quarter, we had the OIS curve saw a sharp change resulting in the mark-to-market.

While this we have seen volatility during interim periods, for the life of the security, the spread remains protected and that's what we are playing with. If you notice the previous quarter itself, we actually had a profit of INR150 crore on the mark-to-market scenario. We of course continue to have a significant portion of our investment book in AFS and HFT which is 81% as of December.

The net interest income for the bank closed at INR6,554 crore which is about 16% higher than what we have done a year ago. We have also seen a 27% growth in fees and services both on account of distribution, as well as on general banking fees. This quarter costs INR4,284 crore which is 14% higher than what we had a year ago.

The employee cost tended to be a little higher this quarter because of higher retiral costs as well as some stock related hits which we end up taking. And the other operating expenses were significantly higher spend on promotion and marketing during the festive period in quarter 4 calendar.

The pre-provision profit therefore INR4,566 crore which is 19% higher than what we had at INR3,850 crore in quarter 3 last year. Provision towards advances INR324 crore which gives us a pre-tax profit of INR3,987 crore. Our credit cost at 40 bps versus 47 bps in the previous quarter.

Our advances overall which is before IBPC, BRDS stood at INR3,72,000 crore which is about 19% higher than what we had a year ago. After including credit substitutes, we grew customer assets at 17% Y-o-Y and 5% Q-o-Q.

Our unsecured retail including retail microfinance is now at 11.6% of our net advances. Net interest margins we closed at 5.22% which is the same as what we had in the immediately preceding quarter versus 5.47 a year ago. We had 4.8 crore customers as of this period which is about 0.9 crore higher than what we had a year ago. Our asset quality remains fine. We had a GNPA of 1.73% against 1.90% a year ago with a net number at 0.34% against 0.43% a year ago. The coverage ratio therefore at over 80% now.

Our slippages this quarter were about INR1,177 crore whereas at net level we would come to about INR888 crore. Our fund based restructured standard COVID and MSME resolution aggregates to only about 0.13% of our advances. Our CASA at 47.7% and about another 10 odd percent comes from ActivMoney which is the quasi-TD which we have. Our capital adequacy again at the bank healthy at 21.3% with CET1 itself at 20.1%. Probably those were the highlights of what we did this quarter. I will give it to Manian to take for the corporate bank.

KVS Manian: Thank you, Jamin. I will quickly take you through the highlights of the wholesale business in the bank. This quarter our corporate advances grew at a rate of 3% Q-o-Q and 13% Y-o-Y but overall, our funded assets book including credit substitutes grew at 7% Q-o-Q.

As we have always been talking about, we manage the funded assets, advances and credit substitutes in an interchangeable manner depending upon the movement of interest rates and pricing that is available on each of those. This quarter therefore saw a reasonable pickup in the investment book which grew actually 21% Q-o-Q.

Among the various segments, we saw strong demand for credit offtake from our mid-market and SME segments. Both these segments have grown much faster than the rest of the wholesale bank. The mid-market segment ramped up well and grew in double digit Q-o-Q. Growth in this segment is consistent with our philosophy of growing a granular book in the corporate bank. Majority of the mid-corporate book is working capital intensive and we will continue focusing on faster onboarding of new clients in this segment.

SME book saw a growth of 5% Q-o-Q and 18% Y-o-Y. Our focus on NTBs and rollout across more locations has ensured good overall growth in the business. In fact, the business witnessed its record number of NTBs getting onboarded this quarter. SME book quality remains healthy. However, we do continue to see pricing related challenges in this segment.

We see even more intense pricing pressures in our traditional large corporate segment and this has impacted growth of that book in the long-term book as well as the short-term book. But advances growth was relatively healthy in the conglomerates and the multinational segments. We have been cautiously building our infrastructure financing book in a selective manner. We have seen some traction in this side of our business with deals being closed across renewables, roads, hospitality and other allied sectors. Our overall portfolio metrics remain excellent with negligible credit costs.

We are seeing somewhat subdued growth in the fees in the current year. While we have seen growth in throughput in FX volumes, spreads have been competitive and have put pressure on the fee growth. Even though DCM has a healthy pipeline, we have seen some challenges in deal closure during the quarter and therefore the income was somewhat subdued.

On the liability side, the current account balances were muted this quarter. The lumpy upside that we saw in Q2 arising out of custody flows has moderated a bit in Q3. We continue to focus on garnering higher share of the customer flows and transaction banking in the corporate segment. On an average basis, the core corporate segment has shown a reasonably robust Q-o-Q growth.

We have been investing significantly in improving our technology and stability of our systems. Our digital offerings through fyn and our offerings on tax remittances continue to show good adoption rates. Tax payments through the bank grew at a healthy 35% Q-o-Q. This quarter, we also successfully completed migrating all our CMS payments customers to our new CMS platform.

Overall, the business remains in good health with healthy ROEs and robust profit growth. Our philosophy that our profit growth should grow faster than our asset growth remains our abiding principle in this business and we continue to manage it in that manner.

I will now hand it over to Shanti to take you through the commercial bank.

Shanti Ekambaram: Thank you, Manian. The commercial banking business saw reasonable growth in this quarter.

I will start with commercial vehicles. While the industry in this quarter saw muted and a little bit of de-growth, our overall disbursement grew at 35% Y-o-Y in new unit volume terms and we continue to outpace the industry growth leading to an improvement in market share. Demand for passenger bus segment continues to witness significant growth whereas the goods segment remains relatively flat. At the industry level, freight demand, viability and availability of return loads continues to be stable. We will continue to increase our SOH and market share in this segment with focused approach on risk-adjusted return and increasing our distribution footprint. Collection efficiency continues to be stable.

Coming to construction equipment, thanks to the steady and improving demand on the infrastructure side, the industry grew as well as we grew. Our disbursement grew at 38% Y-o-Y in Q3 which helped us gain the market share. Earth-moving equipment, road and material handling equipment, segments like mining, roads, urban, semi-urban housing, saw a lot of demand for construction equipment and also aided by the significant improvement in the macroeconomic scenario. We expect to retain our growth momentum in this segment in the last quarter and we expect industry also to continue to show a good rate.

Tractor industry actually de-grew 4.2% on YTD December because of the delay in harvesting and rain impact. However, we continue to grow our disbursement and market share in this very important segment for us. The used tractor business has seen strong growth in current year and helping us strengthen our existing customer relationships as well as acquire new customers in the early state of farm mechanization. Our focus on this segment will continue and we will deepen our presence in Bharat. Collection efficiencies were better than the previous year. Some stress is visible in rainfall deficit states, predominantly Maharashtra and South India.

Microfinance business. Our microfinance business continues its growth momentum in Q3 with a healthy growth in advance of around 56% Y-o-Y. There has been some relative slowdown in growth due to control measures implemented by us for better hygiene. Our current outreach in 12 states is through a network of 800 BC branches with an active base of 18 lakhs women. Marginal increase in PAR, but that is because again of certain excess rainfall deficit states as we talked about in the earlier tractor finance business. We will look to strengthen our investment in technology to bring about greater control and improve our customer experience as we continue to build our presence in this largest underserved segment.

Agri SME continues to be subdued in terms of utilization of limits due to lower stocking by many traders given the volatility in the pricing. We expect this business to pick up in the coming quarter and utilization to improve. Remains a core focus area for us and will continue the growth path.

I now request Virat to take you through the highlights of the consumer bank.

Virat Diwanji: Thanks Shanti. As I start with consumer assets within the consumer bank. Our mortgage lending business continues to grow well at 15% Y-o-Y in spite of the pricing pressures. We see strong traction in the loan against property segment which has been traditionally area of strength for us. This book continues to hold well on all parameters of risk and collections.

Our unsecured products in consumer bank continues to show positive traction with a growth of about 40% Y-o-Y and 9% Q-o-Q. Our growth is well balanced and well diversified between personal loans, business loans and credit cards.

We continue to invest in our card franchise with overall credit card advances is growing by about over 50% on a Y-o-Y basis. Our focus on creating a differentiated customer value through strategic tie-ups and sponsorship is paying dividends.

Overall risk metrics for the unsecured business is holding stable. Some emerging risk seen in the credit cards due to leverage build up by customers leading to diminished repayment capability. However, it is absolutely under control and we believe our unsecured portfolio is appropriately priced to deliver targeted risk adjusted returns.

Now I move to the business banking assets within the consumer bank. Again, this has seen a good growth of about 20% on a Y-o-Y basis. While on Q-o-Q, the growth was slightly muted due to repayment of utilized limits originating from the post-festive season cash realizations. Formalization in the micro-enterprises segment over the recent period along with our geographical distribution has resulted in micro-enterprises segment book which gives better limit utilization going much faster than the small and medium enterprises book.

Fuelled by market demand and partnerships, the unsecured business loan segment witnessed a healthy growth. Of late, we have seen demand for CGTMSE-backed loans from our customers. Our delinquencies on both the secured and unsecured business banking book remains stable. Looking ahead, we expect to reap benefits in efficiency and enhancing customer experience from technology investments we have made in the recent period.

Moving on to the liability side, the total deposits have grown 19% on Y-o-Y basis with major contribution coming from term deposit. However, savings account balances returning to show some positive traction on a Y-o-Y basis. In line with banks objective of building a granular and stable deposit franchise, the bank introduced a special offering for a senior citizen customer segment which was received well on the ground. ActivMoney which was launched in May continues to scale up significantly.

Bank continues to scale up sourcing of savings and current accounts using assisted digital journey. This has helped us to reduce the account opening TAT resulting in better customer on-boarding experience. This digital on-boarding journey also allows customers to choose other financial products offered by the bank. This eventually will help us better cross sell at the time of on-boarding.

To drive growth of business customers, we have launched a value proposition for SME and MSME segment. We also launched a new global service account to meet the unique banking needs of service export sector. We saw significant traction in our customers using our digital platform for payments of statutory taxes in quarters.

Thank you. I will now hand it over to Milind for digital update.

Milind Nagnur: Thank you, Virat. I will take this opportunity to explain our strategic thought process on core technology and digital focus areas. It's a three-pronged strategy where firstly we have to ensure the basics on customer experience and platform. That is, we must provide technology that works fast, that works reliably all the time while protecting customers' assets and transactions with the highest level of security and privacy.

Secondly, straight through processing is a concept we relentlessly go after where the goal is to design and maintain processes that are simple, fast and paper-free. Thirdly, we are also investing for a future that is getting shaped with software 2.0. A key aspect of software 2.0 is that traditional software engineering, which was about engineers writing code based on user stories, is getting replaced with designing of weights on neural networks.

In order to be fortified on all three aspects of this strategy, we have to have the right skills in-house and we have had a significant focus in 2023 on on-boarding some of the best tech talent and establishing best practices such as architecture review board and principal engineer reviews for our project design. We plan to double down on these efforts in calendar year 2024. A short glance at the metrics on the digital page show notable improvements in digitization across both consumer and wholesale areas.

Overall, we strive to see ourselves delivering technology that could be a key differentiator for our customers. And that would be my short update on tech today and I'll pass it now to Jaideep for the next topic on Kotak Securities.

Jaideep Hansraj: Thank you, Milind. I'll be talking about the Q3 numbers for Kotak Securities. Since the overall cash market volumes saw a dramatic jump over the last two and a half months, which has clearly been fuelled by the FIIs and domestic mutual funds. Options volumes have shown some bit of plateauing over the last quarter. We will have to wait and see how things pan out post this round of market volatility.

Kotak Securities has delivered a top line of INR999 crore for Q3 of F'Y24. This was against a number of INR784 crore for the same period last year. This top line resulted in a PAT of INR306 crore, which was comparable with a INR241 crore PAT of last year. The call taken by the firm on having Neo as the preferred app and web platform for our customers is working out reasonably well.

Neo today accounts for nearly 90% of the firm's volumes, 80% of the traded orders, and 85% of the futures and options orders. It is being liked by our customers, still some time before all the customer's demands for all the features are met. The team continues to strive to ensure that it listens to every communication by the customer and tries fulfilling it.

The institutional part of the business would be one of the strongest franchises of the group and shows robust growth in practically all categories. The overall market share has seen a healthy growth and we will continue our endeavours to keep climbing on the market share. I will now hand over to Mahesh Balasubramanian, who is the CEO of Kotak Life Insurance. Thank you.

Mahesh Balasubramanian: Thank you, Jaideep. Kotak Life Insurance gross written premium grew by 9.7% year-on-year for the quarter. Traditional products contributed 78.9% of regular premium, with non-participating products contributing 46%. Our unit growth has been lower than some of our peers, as our focus has been more on the traditional products which deliver consistent margin.

The overall protection premium stood at 36.6% of individual new business and group premium. Kotak Life profit after tax for the quarter stood at INR140 crore, which was lower than the same period last year. This is mainly due to two reasons. Higher guarantee rates to customers on the non-par products sold during the period, resulting in higher new business trade.

Secondly, consequent to the change in guidelines wherein commissions have been deregulated, we now pay higher commissions to few partners, including Kotak Mahindra Bank. I will now hand over to Vyomesh Kapasi to go through the results of Kotak Prime.

Vyomesh Kapasi: Thank you, Mahesh. Auto industry witnessed good retail demand in Q3 due to festive season and attractive consumer offers in the year-end. This has also resulted in reduction of stock level at the dealership. So far, industry has grown 7.4% in the current financial year and 8% for the calendar year 2023. The demand is mainly driven by SUV segment, which is now more than 50% of the industry sales.

Passenger car EV sales has doubled in the first nine months of the current financial year to 65,000 approx against 30,000 last year. EV penetration in the industry is now at 2% as compared to 1% last year. This year, KMP car finance business growth is 2.5 times higher than the car industry growth. Overall, on the financials, profit after tax was INR239 crore in Q3 against INR225 crore in the same quarter last year and INR208 crore in previous quarter.

KMP acquired Volkswagen and Ford Portfolio in financial year 2022, which is running down. As a result, the contribution from this portfolio to PBT has come down this quarter compared to same quarter last financial year. The overall customer assets at December 23 are at INR32,944 crore against INR26,983 crore as at December 22.

Thank you and with this I'll hand over to Mr. Nilesh Shah of Kotak AMC.

Nilesh Shah: Thanks, Vyomesh. Let me talk about our asset management business. In third quarter FY'24, our total average AUM grew 23% Y-o-Y to reach INR3.54 trillion. Our equity average AUM grew 32% Y-o-Y to INR2.10 trillion. Our equity AUM market share grew to 6.56% in third quarter FY'24. Our SIP inflows for December 23 grew 23% Y-o-Y to INR10.9 billion. Our non-institutional AUM stands at about 59% of total AUM.

Our PBT before other income grew 19% to INR184 crore in Q3 FY'24 on back of AUM growth. Our total AUM across mutual fund, TMS, offshore, insurance and alternate assets grew 32% Y-o-Y to INR5.33 trillion led by domestic equity and offshore funds. We continue to manage the largest India dedicated offshore fund, Kotak Funds - India Midcap Fund with AUM in excess of INR3.9 billion.

Now I will hand it over to Jaimin.

Jaimin Bhatt: Dorwin, we should be good for taking questions now.

Moderator: Certainly, sir. We will now begin the question-and-answer session. The first question is from the line of Chintan Joshi from Autonomous. Please go ahead.

Chintan Joshi: Thank you. So, I wanted to start off with understanding the sensitivity to your NIM for FY'25. So, the way I see it, you have something like 35-40 basis points of NIM improvement coming from the business mix shift towards unsecured. And also, 57% of your book is EBLR.

So, if I think about FY'25, how do you see the impact of RBI measures on unsecured impacting your book? And how does that flow into NIMs? And also, if there is a rate cut, let's say at the end of FY'25, how should that impact your NIMs going forward? If you could give some color on that, that would be helpful.

Jaimin Bhatt: Let me just take that. Jaimin here. Yes, you are right, 57%-58% of our book is linked to repo. And to that extent, it is directly linked to what's happening there. This year, you have seen repo rates flat that have been effectively since the last increase in February '23, we have retained that number for all of this period. And likely to be at that level for some time. We don't know when it will change. But yes, the book is somewhat sensitive to the fact that 58% is linked to repo rates.

If the repo rate falls, yes, those advances do get re-priced. And to that extent, it will depend upon how the mix on the asset side as well as the liability side is changing. Yes, the unsecured book, we have taken it now to about 11.6% of our overall net advances. We have talked in the past that we would be comfortable to take it early to mid-teens. We are pretty much on that journey. At this stage, there is no reason for us to put the brakes on it.

While RBI may have increased risk rates and all, we are quite comfortable with that. And that wouldn't really put the brakes on what's happening on that growth. So, we will keep growing that steadily from where we are today, of course, keeping an eye on the collections and credit. But that will keep going on. So yes, if the repo rates drop, it will kind of rebalance what's happening. But the decision on going for higher unsecured will not be necessarily linked to, because the repo rates are falling, it's a mix of how the credit book would look like.

Chintan Joshi: Thank you. And then the second question is on deposit competition. It seems to be competitive in the system. Liquidity is tight, which should be headwind arguably to your cost of funds. The question I have is, do you see room to move lending margins higher to offset some of these competitive pressures? Or do you think business as usual, is good enough for the moment?

Jaimin Bhatt: Look, they are two different things. Both sides are in the marketplace. So, while deposits we need -- all banks would go for deposits and pay what is the right and what the depositor will take. Similarly, the borrower is also in the marketplace and you're not going to be able to price higher than what the market is willing to pay. So, it will have to be played out in the market. Yes, there is a challenge in deposits, which we've called out in our investor presentation. And to that extent, yes, we are taking all kinds of steps.

We activated these Sweep deposits. We call it ActivMoney. That happened about six months ago and we've seen big traction on that. We had reasonable growth both in the previous quarter and in this quarter. Last quarter -- just a month ago, we've activated the senior citizen's scheme. So that's again, we're pushing that out. So that is a separate play and what the market will pay you on the asset side is a completely different game.

Chintan Joshi: Okay. Do you see any signs of lending margins increasing in the face of deposit competition pressure?

Jaimin Bhatt: Not really. I think that will play it out. I think there are enough players on the lending side also.

Shanti Ekambaram: It's a competitive market and each of the product segments and the customer segments you are in are very different pricing. So, it is a very competitive market and we sort of have a strategy in each of the segments.

Chintan Joshi: Okay. Thank you. And finally, just wanted to say welcome to Ashok and congrats in the role.

Ashok Vasvani: Thank you so much. Much appreciated.

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

Mahrukh Adajania: Yes, hello. Hi. My question is in general, a discussion on LDRs, because the presentation has talked about -- you just mentioned the deposit challenge. And then there are talks from some banks that RBI is monitoring LDRs more closely than it was earlier. So how do I view this in the context of Kotak, especially in FY'25?

Because if you take the third quarter, say third quarter loans grew 3.3%. If you take like an annualization of 3.5, then you're talking about maybe 14%-15% loan growth. Is that the kind of loan growth that the bank will settle for or is there scope for LDRs to move higher? How does it pan out from here? Is there any guidance or any rough target that you could give on where LDRs should settle in FY'25?

Jaimin Bhatt: So, Mahrukh, let me just put a couple of things there. One is what you talked about, the 3 odd percentage as advances growth for the quarter is at the net-net level. If you look at the level before the IBPC, BRDS and others, the number of customer asset growth is about 5.3%-odd for the quarter. So that takes you to about 20% thereabouts annualized. So that's broadly the asset side growth which is happening at this stage. IBPC, BRDS is like a way of funding that to keep that going.

On the LDR, yes, we are at 88-odd-percent at the end of December. Let's also recognize the fact that while 88% may be optically higher, we also have among the highest Tier 1 capital in the industry which is pure equity. Our CET1 today is about 21% which is giving a lot more cushion to what we can do with it.

Plus, look at the fact that on the LCR, we are at about 126% overall at group level, about the same level as what we were a year ago. So, there is enough liquidity there. And yes, we will keep looking at that and we also at times fund coming through other means. Take this quarter itself where we did about INR3,000-odd-crore through borrowings which were from refinancing from SIDBI. There are other avenues which are available to fund the asset growth, we will keep looking at it. Of course, deposits is something which we are very focused on.

Mahrukh Adajania: Okay. So, we can still see high-teens growth next year?

Jaimin Bhatt: Yes. The standard thing if you have noticed Kotak for the last 20-odd years has been that if you take the nominal GDP, we would typically end up in the space of 1.75 to 2X that growth at a time when we want to grow. Of course, there are times when we hunker down which is not the state at this stage.

Mahrukh Adajania: Okay, so high teens should be possible. And my last question is on basically again deposits only. With so much competition in deposits, do you think deposit rates are likely to rise or you could see margin pressure going ahead?

Shanti Ekambaram: Okay. So, Mahrukh, let me take that question. I am saying that if you look at what we did, you have savings at about 3.5%, you have term deposits at about give or take 7.2%. And we introduced ActivMoney which actually gives a cost in between savings and TDs. So, we introduced another product that gives us another flow of deposits. We will have to keep on innovatively looking at sources of funding for the purpose of our balance sheet and also look at how do you optimize cost of funds.

We will do what it takes. I am saying if you see the market now, all the banks are raising deposits to fund their growth because there is growth and finding the various initiatives and strategies to play this game. So, we are right there and will be competitive in order to make sure we have adequate fuel for our balance sheet.

Mahrukh Adajania: Okay, perfect. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: I was just saying maybe if you can just highlight in terms of the COVID provisions outstanding. Last quarter it was INR320 odd crore. How much have you utilized this quarter and where do we stand now?

Jaimin Bhatt: So, Kunal, that's an arithmetic which we are following which is why I have not put that number this quarter. We are following a formula-driven provisioning on COVID now. That was done long back in the period.

Technically, we could take all of that back but we worked out a situation where we use a formula with the consent of the auditors and others. So, in this quarter, we would have taken away a provision of about INR26 crore. So, out of that 321 which you talked about, 295 is still being carried.

Kunal Shah: Okay. So, 295 still continues. Okay.

Jaimin Bhatt: That's correct.

Kunal Shah: And when we look at it in terms of the overall deposits, so these Sweep deposits are now almost like INR42,000 odd crore. Looking at where the savings pool is, maybe we have seen this shift almost like 35% out there into Sweep.

Obviously, this is more of a behavioral change but where would it largely settle looking at maybe your interaction with the customers and how much impact could it continue to have in terms of the overall cost of SA moving up or maybe combined cost of SA plus TD moving up? Yes.

Virat Diwanji: So, you see, we launched this ActivMoney with a clear strategy that, okay, we get in more customers and when we get more customers, they help us build both SA and the high-valued customers which were moving money to the places where there was a high interest gain for them.

We retained that money or got more money from the other places to build our Sweep balances. I think that strategy has worked for us so far and we will definitely continue going forward is to get more customers, more SA balances and money moving into Sweep. So, at least the money that we have as deposits keep on growing.

Kunal Shah: And last quarter, in fact, you indicated when there was 35 bps decline that 20 bps was spread impact and 15 was maybe one-off. Maybe this one-off would not unwind but maybe it will not repeat this quarter. So, if we just look at in terms of the maybe currently 5.22% staying as it is as Q2, if you can just give the breakup in terms of how much has been the impact on the spreads and how much maybe if any of the unwinding which was there maybe which has helped this quarter. So, that would have maybe because expectations were of a decline?

Jaimin Bhatt: So, I think, Kunal, it's not easy to put that into an arithmetical formula but yes, just to give a thing, last year there was a CRR impact which was a one-timer which is not there this time. We had some hit taken internally last quarter which is not there again this time. So, those would be about 3-4 bps differential.

Of course, there is the other thing which we have done smarter this period is now that we know the behavior particularly of what's happening on ActivMoney and all, the proportion of money which is going into advances from the investable amount has gone up and that does make a difference. Because what you earn on advances is significantly higher than what you would earn on just putting into liquid investments or whatnot.

So, that is the difference where the mix of the earning assets has changed a little more in favor of advances and that's again continuing to be an effort and we'll keep doing what it takes there.

Kunal Shah: So, then investment rise of almost INR17,000-odd crore during the quarter away from the cash. So, in fact, investments are also growing on a quarter-on-quarter basis from 128 now, it's gone up to 146. So, maybe obviously some cash has been put into the investments but if you look at between the advances and the investments, investments is also growing and largely credit substitute is a part of it?

Jaimin Bhatt: That's correct. That's the credit substitute growth which is effectively what we looked at as customer assets…

Kunal Shah: Yes, okay. So, you are saying not maybe mainly the low-yielding one but still getting into the credit substitutes and that's helping. Okay.

Jaimin Bhatt: That's right

Kunal Shah: Okay, good. Okay, yes. Thank you.

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

Saurabh Kumar: Hi, sir. Just one question on your ROA. So, historically we used to be in the 1.8%-1.9% odd ballpark. Now with this unsecured mix moving up, would you say this 2.2% handle should be the new normal at which Kotak operates at given the mix change?

Jaimin Bhatt: The 2.2%, actually what you are saying, the 2.2% I presume you are talking about is at standalone level. The 2.2% has also got hit thanks to the two hits which we took including the AIF hit which is purely accounting. So, it could actually be higher.

But the numbers which you are talking about, the 1.9% and odd, were in a different era. We've raised capital after that. It does help you on the ROA number which effectively we raised about INR7,000-odd crore in 2020 and that's taken up our CET1 ratio.

So, that does help on the ROA. But I think overall, the margins have tended to get higher. If you again go back to that era of 1.9% thereabouts, NIMs were operating more in the 4.5 range. We are now talking about consistently in the 5 plus range.

Saurabh Kumar: In a mixed shift in the book, that's a higher ROA book. So, my question was like now we should expect Kotak to be now structurally above the 2.1%-2.2% ballpark, right?

Jaimin Bhatt: Again, that is the ROA is more of a consequence and yes, the mixed change has helped on the asset side. And yes, the consistent thing of pushing the CASA numbers again.

Saurabh Kumar: Okay, thank you.

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

Jai: Hi, good evening, sir and thanks for the opportunity. Sir, my first question is on cost of deposits. So, last quarter we had said that considering our duration of term deposits, the TD cost should be more or less plateauing.

So, while we don't give the interest on deposits or the TD cost separately, is that a fair assumption that the TD cost would have been plateauing? And just a supplement to that is that in the fag end of the quarter, SBI and maybe some other banks had raised their deposit rate. So, how should we look at the cost of deposit for our banks?

Jaimin Bhatt: That's a market-driven thing technically and yes, you've seen if the big boys play the deposit game, some of us will end up having to raise the deposits. Yes, so I wouldn't say it's absolutely plateauing, but yes, the range has been narrowed.

Shanti Ekambaram: I'm saying that it's not just the repricing of deposits, which we had said 10-11 months more or less time. There's a mixed change also, right? We talked about the fact now that there is SA, there is ActivMoney and there is term deposits. The mix of deposits are also changed. It's not just a function of repricing of the TDs, but the mix of deposits as we go forward.

Jai: Right. So, that is one. And secondly, if we can also talk about the PSL fulfilment for our bank, I think there is some change by the RBI in terms of Udyam registration, etc, wherein they had made mandatory that registration for MSME. Is there any change in the PSL framework for our banks and how are we doing?

KVS Manian: So, let me take that. So, there is no recent change in the framework of PSL. Udyam registration has been the norm for a while now, a couple of years actually. So, there is no significant change. We, by and large, meet our PSL requirements other than in the SMF category, where we meet it through trading of certificates. And we have a small shortfall there, which we make up. Otherwise, we meet the PSL requirements prescribed by RBI.

Jai: Understood, sir. Thank you so much.

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

Piran Engineer: Yes, hi. Thanks for taking my question and congrats on the quarter. Just firstly, I wanted to understand industry-wide and for Kotak, what are the sort of rate actions on PL and loans to NBFCs post the risk weight guidelines?

KVS Manian: What is the question? Can you just repeat that, please?

Shanti Ekambaram: Can you repeat the question, please?

Piran Engineer: Yes, so I'm saying that after RBI's risk weight guidelines for personal loans and loans to NBFCs, how much have we and the industry increased pricing in these loans by?

KVS Manian: Yes, so if you see most of our unsecured loan segments, they are largely fixed rate products and the pricing are already at reasonably elevated levels and therefore, we haven't significantly increased pricing at that end. On loan to NBFCs, yes, we have made our adjustment to prices that are required to get us the right ROEs on the products.

Virat Diwanji: Keeping with the principle of the risk-adjusted returns, yes, there is a slight increase on the unsecured personal loans that we are doing today. So, there is some increase that we have done.

Piran Engineer: Is that like 10, 20 bps or more like 40, 50 bps, when you said that?

Virat Diwanji: Yes, it is exactly between that.

Piran Engineer: Okay, so 20-30 bps. Okay, fair enough. Secondly, just wanted to understand, festive demand for commercial vehicles was a bit muted. A couple of your peers have reported. But we've delivered like 9% Q-o-Q growth. So, what exactly are we seeing or is there some sort of one-off in the base that we need to understand out here or some market share gains? Can you just elaborate on that?

Shanti Ekambaram: It's a distribution strategy as well as, volume strategies that we are looking into and also segment strategy. I think there's a combination of all these three, which is what I said in the opening while the industry has seen muted growth disbursed in Q3, Y-o-Y muted growth. But we've sort of been deepening our distribution and also looking at the segments where we are growing in certain segments. So, it is a growth strategy focus in that sense, market share.

Piran Engineer: Is it like some new segments that we have entered into within commercial? Like started doing used commercial vehicles?

KVS Manian: Yes, so we have done two things. One is the proportion of used commercial vehicles has gone up slightly. And we are also, we have made some penetration into what we call the small commercial vehicle segment.

Piran Engineer: Got it. And just lastly, in terms of opex to assets, now we used to be at 2.5% pre-COVID, now consistently north of 3%. Is that a consequence of our strategy of going more into unsecured retail, which of course is a high-cost product? Or should we think about that over a two, three-year period?

Jaimin Bhatt: No, right now, yes, there is some investment more, which is happening on the cost side. But yes, the effort over a period of time is to stepping it down. I don't think we are wanting to be staying at three plus overall.

Piran Engineer: Got it. Got it. Okay. Thank you so much and wish you all the best.

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

Abhishek Murarka: Hi, good evening. So, my question is on deposits costs. If you can share what is the incremental cost of deposits or cost of term deposits, whatever you find easier to share? And also, LCRs, I think you mentioned 120% at the group level. Can you also share that number for the bank?

Paul Parambi: The group level LCR is 126.9% and the stand-alone bank is at about 119.5%.

Shanti Ekambaram: 120, Yes.

Abhishek Murarka: So similar to last quarter?

Jaimin Bhatt: That's right.

Shanti Ekambaram: Yes.

Abhishek Murarka: And on cost of term deposits, the incremental cost?

Jaimin Bhatt: I wouldn't want to get into incremental, but our overall deposits, I think as Shanti alluded to, would be about 6.5- 6.7, in that range.

Abhishek Murarka: Term deposits?

Jaimin Bhatt: Term deposits. Yes.

Abhishek Murarka: Term deposits is 6.5 to 6.7. Is that correct?

Jaimin Bhatt: That's correct.

Abhishek Murarka: Okay, okay. So basically, in terms of deposits, the gap between your outstanding deposit costs and incremental, can you give an indication of how much that would be?

Jaimin Bhatt: I said I don't want to get into incremental ones. What my book today would be in that range.

Abhishek Murarka: Okay, got it. Got it. All right. Thank you so much.

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

Nitin Aggarwal: Yes, hi. Thanks for the opportunity. One question on the unsecured business, particularly the credit card, while you talked about that you'll want to take the unsecured mix to mid-teens, as earlier indicated, but there was a blip on the credit card sourcing in the quarter. So, if you can talk about how the sourcing rate is trending and what is the strategy there?

Virat Diwanji: Look, strategically, we have been always focusing on issuing cards to our own customers. And as of today, if you ask me, about 85% to 90% of the cards that are issued are to the existing bank customers. So, from that perspective, at least on the issuance side, we are consistent with our strategy.

Nitin Aggarwal: So basically, I'm referring to the month of November, wherein there was a drop in terms of the net card addition versus like 100,000 plus run rate that has been the usual trend. So, anything to read into that?

KVS Manian: Nitin, what we did in the last quarter was that the lower end card with low limits, we rationalized our sourcing in that segment.

Nitin Aggarwal: Okay, sure. And one clarification on the treasury loss that we have quoted for the quarter. So, what has driven this? Because, across all the banks who have come so far, we are seeing steady treasury gains. And both equity and bond markets have been moving pretty good. So, what has really driven this loss this quarter?

Jaimin Bhatt: I haven't understood the question, but just to explain that, as I mentioned, it is probably the bond swap strategy which we are following. Where in effect, we lock the spread over the life of the asset, where the OIS curve can move differently. And this quarter, it had moved sharply. So, we would have intermediate fluctuations on the thing, but over a period of the life of the asset. So, do I need to repeat the answer again? Then I'll do that.

So just to explain the treasury loss which we took this quarter. It is basically a part of the bond swap strategy which we do, where over the life of a security, the swap enables us to fix up a lifetime spread which we are protected on. While this swap curve moves, there could be volatility in the intermediate periods. We saw a profit in the previous quarter. We've taken a hit in this quarter. But over the life of the asset, the spread is protected and that's what we play on. So yes, we'll have to live with this volatility over periods. But I think over the life of the security, it's a gain which we quite liked and we'll continue that.

Nitin Aggarwal: Right. And lastly, on the ROA, while you talked about the sustainable ROAs that you looked at, but how do you really look at the ROE in the medium term? Because that's one metric wherein Kotak has been really behind other banks.

Jaimin Bhatt: I take the point just as the ROA is helped by the equity which we raised. It is a drag on the ROE because at 21% CET1, it's significantly higher than what we would need. So, to that extent, yes, we would look at and we would take a look at what we do with that. But yes, the capital which we raised three, four years ago has effectively, the profits have been enough to keep the growth going. And to that extent, we'll keep looking at what we do with the capital.

Nitin Aggarwal: Sure. Thanks so much and wish you all the best.

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

Param Subramanian: Yes, hi. Thanks for the opportunity. Just one data keeping question. So, for the investment book, how is it split between GSec and non- GSec? Because the credit substitutes have gone up and you mentioned you manage margins by moving cash into credit substitutes. But at the same time, we maintain the LCR. So, if you could just explain how that happened?

Jaimin Bhatt: Well, broadly GSec book is about 108 out of the 145. So, we've seen that, I think somebody asked earlier about 128 in the previous quarter going to 145. A large part of that has gone into investing which is in credit substitutes. Effectively of the 145, about 108 would be with respect to GSec and about 28 which is the credit substitutes there. The balance will be including our investments in subsidiaries and whatnot.

Param Subramanian: Yes. Jamin, could you explain how the LCR has been maintained despite? You said that the margins have been managed, the 15 bps drag on margins which was their last time has been managed.

Jaimin Bhatt: There are two different things. I'll talk about the margin. I'll let Paul take the LCR bit. The margin is there because of the fact that you have the proportion of advances to the earning investments has increased. And even a small change does make a difference because what you make on your advances is from a yield basis higher than what you would make on investing or interbank funds. So that's how the margin was maintained over the last quarter. In terms of LCR, you're speak on that?

Paul Parambi: See overall LCR is good because we are fairly comfortable in our liquidity position and therefore that is really what is helping us to maintain our LCR. However, we sort of balance -- carefully balance how much, our inflows and outflows in the short term. We manage some of that. We manage our HQLA. We manage our investments and therefore also try to optimize LCR using that. So, it's a combination of these that helps us to manage our overall LCR. But I think the underlying factor is really that we are fairly comfortable on liquidity.

Param Subramanian: Fair enough. Thanks a lot. Just one more question if I can squeeze in. I think in this quarter we increased the deposit rates in some of the higher tenure buckets. So, what's driving that because if we are at the fag end and could be heading into rate cuts going ahead, why are we increasing in higher tenure buckets?

Virat Diwanji: In terms of the opportunities in the market plus an option to get higher. This is a time where the interest rates, people believe they are at the peak and from here on it will come down. And hence there is an opportunity for us or for the customers to lock in the deposits at the higher end. And that's where we saw the opportunity and in certain durations, we have raised that rate. And there again to be competitive with the three or four competitors whom we benchmarked.

Param Subramanian: Okay. Thanks a lot. All the best. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question. I would now like to hand the conference over to Mr. Ashok Vaswani for closing comments. Over to you, sir.

Ashok Vaswani: Guys, just on behalf of the entire Kotak team, I wanted to say a very big thank you and appreciate you doing this on a Saturday evening. And with this I call it to close for this quarter's results. Thank you.

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