

Kotak Mahindra Bank

Operator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Ltd. Q2 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing star 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 and CEO of Kotak Mahindra Bank Ltd. Thank you, and over to you, sir.

Ashok Vaswani – Managing Director and CEO: Thank you, Dhavan. Good afternoon, everyone, and thank you for joining us this afternoon. As usual, I will begin with some opening remarks before handing over to Devang, who will take you through the financial performance. Anup and Paritosh will cover the retail and institutional businesses, respectively, and Jaideep will provide an update on our subsidiary performance.

For the quarter, the group delivered 5,645 crores in profit after tax, a growth of 26% year-on-year. Let me first talk about the bank and then move to the subsidiaries.

The bank delivered profit after tax of 4,212 crores, up 29% year-on-year. This quarter's performance demonstrates that our strategy is translating into results. We are seeing encouraging traction across our focus customer segments and independent product businesses, while our investments in technology are clearly paying off.

In terms of the balance sheet, our total average deposits grew 19% year-on-year. Within this, our CASA and fixed-rate SA books grew 17% year-on-year and 14% year-on-year, respectively. Excluding FCNR deposits on an end-of-period basis, deposits grew 13% year-on-year, and CASA would have stood at 41.8%, up from 40.3% sequentially.

Let me spend a couple of moments on the FCNR B program. We believe that the FCNR B program is a one-off opportunity. We have raised 5.78 billion dollars, or 55,000 crores, through the program, significantly ahead of what our deposit market share would ordinarily imply. This amounts to as much as 9.7% of the June deposit base.

These inflows have supported our objective of increasing the tenure and stability of our deposit franchise by adding longer-duration and fixed-rate funding to the balance sheet. During the quarter, we used part of the proceeds to fund the acquisition of Kotak Mahindra's investment loan portfolio, run down relatively high-cost deposits, and reduce our dependency on IBPC borrowings.

Strategically, we are managing the timing of the deployment of these deposits into customer assets to build the franchise and take advantage of the increasing rate cycle. We expect to deploy the remaining funds over the next few quarters.

Net advances grew 25% year-on-year, which includes 16,000 crores of loans against FCNR B deposits and a transferred loan portfolio of around {? 9,600 ?} crores from Kotak Mahindra Investment. Excluding both of these, our core net advances grew 19% year-on-year, in line with our philosophy of growing our advances at one and a half to two times normal GDP growth.

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In the unsecured segment, as we have been saying, we have continued to grow in absolute terms, with sequential growth now visible in personal loans, business loans, credit cards, and retail micro credit—in other words, across the board. Further, the benefits of our strong underwriting disciplines and enhanced collections capabilities are continuing to come through. This is reflected in credit cost, which improved to 35 basis points in Q2 FY27 from 46 basis points in Q1 FY27.

On costs, the underlying growth remained broadly flat sequentially, adjusting for the FCNR B impact. We continue to see the benefits of our focus on cost discipline, with cost to assets declining steadily over the last six quarters to 2.4% in Q2.

Let me now turn to our subsidiaries. Quarter-end volatility in equity and bond markets impacted investment income across subsidiaries. However, core operating performance remained healthy, with investment banking delivering a very strong quarter, driven by a rebound in primary market activity and a robust pipeline, maintaining its prime leadership position.

The strong domestic inflows supported the asset management and alternate asset businesses. With this, the subsidiaries contributed 26% of consolidated profit after tax. Reflecting the strength of the overall franchise, consolidated book value per share increased by 16% year-on-year.

To conclude, we are encouraged by the progress across the customer franchise. Advances have grown in line with our stated philosophy, while our liability franchise continues to strengthen. The one Kotak approach has helped us deepen customer relationships. Credit costs have been brought under control, and technology is driving greater productivity. We are confident in our ability to deliver responsible and profitable growth.

With that, let me hand it over to Devang to take you through the financials in greater detail.

Devang: Thank you, Ashok, and good afternoon, everyone. Let me first take you through the key highlights of the bank's standalone performance.

The bank's balance sheet grew 25% YoY, and the total balance sheet size at September 30 is now almost 9 lakh crores. Profit before tax for Q2 was 5,579 crores, which grew by 29% YoY and 2% QoQ, driven strongly by the growth in NII of 16% YoY. Non-interest income grew 23% YoY, with sustained improvement in the cost-to-income ratio from 2.67 in Q2 FY26 to 2.4 in Q2 FY27, and continued improvement in credit cost from 0.79 in Q2 FY26 to 0.35 in Q2 FY27.

Operating profit also grew by 21% YoY and 4% QoQ. Our advances grew 25% YoY and 13% QoQ. Excluding loans provided by the international branches of the bank against FCNR B deposits and the loan portfolio acquired from Kotak Mahindra Investment Limited, advances grew by 19% YoY and 8% QoQ.

Advances growth in Q2 FY27 was across all business segments, primarily driven by SME, which was supported by the ECLGS scheme, corporate banking, and retail banking. Our unsecured retail advances share is 8.1%, and in absolute terms, the portfolio grew by 1,730 crores as against 707 crores in Q1 FY27. The growth mainly came from the MFI, credit card, personal loan, and business loan segments.

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This quarter also saw good traction in our commercial vehicle and construction equipment business. During the quarter, there was a net reduction in IBPC borrowings of 9,800 crores, utilizing the proceeds from the FCNR B mobilization.

Coming to deposits, our total deposits grew 23% YoY and 14% QoQ on an end-of-period basis, while average deposits grew 19% YoY and 8% QoQ. Deposit performance was mainly driven by strong growth in granular retail current account balances and term deposits.

Within deposits, current accounts grew 17% YoY on an average basis, and fixed-rate SA grew 14% YoY on an average basis. Excluding FCNR B deposits, regular term deposits grew 15% YoY on an average basis. Further, we repaid high-cost certificates of deposit during the quarter. The CASA ratio excluding FCNR B deposits was 41.8% as against 40.3% on June 30.

Friends, while the FCNR B program is a one-off opportunity, let me highlight the financial implication for the Q2 results. As Ashok mentioned, we mobilized 55,344 crores in deposits, which is almost 9.7% of our June total deposit base. We gave loans of 16,100 crores, which is about 3.1% of our net advances at June 30 against FCNR B deposits.

These deposits were deployed towards funding the acquisition of the KMI loan, which was about 8,900 crores, and the net repayment of IBPC amounting to 9,800 crores. Strategically, we will use these deposits to fund customer asset growth over the next few quarters, taking advantage of the higher interest rate cycle.

Net interest margin for the quarter was 4.31%, a drop of 22 basis points sequentially. FCNR B deposits and related advances contributed 15 basis points to this drop. The balance {? eight ?}

Management: This drop was due to quarter-specific day-count variation, which is consistent with the pattern observed in prior periods, and the repayment of IBPC. The underlying core margin broadly remains the same as in quarter one, which is also reflected in the NII growth of 16%. Going forward, NIM will reflect the full-quarter impact of FCNR B mobilization, which will be offset by the progressive deployment of FCNR B deposits in customer assets and repo rate transmission on floating-rate advances.

Cost of funds for Q2 FY27 was 4.52%, which included the impact of an increase in the share of term deposits on account of FCNR B mobilization. Our cost of funds continues to remain one of the lowest among large peers.

Non-interest income for Q2 grew 23% YoY. Excluding processing fees on the advances against FCNR B deposits, non-interest income grew 17% YoY. Growth in this non-interest income was mainly driven by higher effects gains, traction in debt capital market syndication fees, and fees from higher disbursements across businesses. Q1 FY27 non-interest income included dividend income from subsidiaries of 570 crores.

Our cost to assets for the quarter was 2.4%, down from 2.66% in Q1 FY27. Operating expenses grew by 14% YoY and 3% QoQ. Excluding one-time costs relating to borrowings by the bank's international branches, total operating expenses grew by 11% YoY and were flat QoQ. We continue to invest in our brand and technology. Cost to income was 45.2%, a YoY reduction of 160 basis

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points.

We continue to see improvement across all asset quality parameters, with gross NPA declining to 1.04% from 1.18% in the previous quarter. Net NPA improved to 0.24% compared to 0.27%, and the provision coverage ratio remained above 78%. Credit cost for the quarter was 35 basis points compared to 46 basis points in quarter one, while the slippage ratio declined to 0.85% from 1.03% in the previous quarter. The unsecured portfolio continues to show improvement in credit cost, and delinquencies in retail CV have stabilized.

As of September 30, the bank's net worth is 1 lakh 45,984 crores, which includes 10,958 crores of MTM gain on select investments accounted through the AFS reserve, which has not been routed through the profit and loss account. ROE for the bank is 11.65% for the quarter. Adjusting for this non-cash AFS reserve, ROE improves to 12.55%. Overall capital adequacy of the bank is 21.9%, of which CET1 is 21.4%.

Return on assets for Q2 is 1.92%, with average balance sheet growth of about 26%, and was higher by 4 basis points on a YoY basis.

This quarter's FCNR B mobilization has provided us with significant liquidity, which will be deployed in customer assets over the next few quarters, taking advantage of the increasing interest rate environment. The core performance of the bank continues to improve, with balance sheet growth, volume-led non-interest income growth, sustained cost discipline, and continued improvement in credit cost.

Moving to the consolidated business, net customer assets stood at 6 lakh 99,250 crores, a growth of about 21% YoY. Group investment AUM increased to 8 lakh 14,118 crores, an increase of 8% YoY. The consolidated net worth of the group is now 1 lakh 94,706 crores, with book value per share increasing to 196 rupees, with a 6-year CAGR of 16%.

Consolidated PAT for the quarter is 5,645 crores. It grew 26% YoY and 3% QoQ. Q2 FY27 consolidated PAT was impacted by market-led MTM volatility across the subsidiaries. However, underlying performance remains strong. Jaideep will take you through the performance of the key subsidiaries in detail.

With that, I hand over to Anup to discuss the highlights of our retail businesses.

Anup: Thank you, Devang. Our retail strategy remained anchored on two focused segments: affluent and private banking India, and core India.

Private banking and core India affluent India continue to grow very nicely. Our Solitaire Premium proposition continues to deliver strong outcomes. As of September 30, the bank managed a combined relationship value of 13.6 lakh crores across more than 90,000 families.

Kotak 811, the cornerstone of our Core India strategy, is now much wider and much bigger. It is a scalable digital platform that is driving customer acquisition through the digital strategy of 811 and is also being used as a platform for customer engagement and acquisition at branches, through our sales channels, and through our corporate salary relationships.

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This differentiated proposition for mass affluent customers has strengthened our customer engagement, resulting in 34% YoY growth in savings balances. This now contributes 38% of total savings.

Our deep conviction around the Core India strategy and our payment strategy has led to significant benefits for us from the changing MDR on UPI. As of 2026, our UPI issuer market share stood at 3.8% and of {? deposit ?} market share. {? Kotak's UPI remitted ?} [crosstalk] system.

In a way, we are possibly one of the few banks that has a very strong payment strategy. It is the success of these two segments that is reflected in the momentum of our liability franchise.

Our CASA stood at 41.8%, up from 40.3%. Devang has already spoken about the numbers. I am going to skip the FCNR since Devang has already discussed it.

Moving to the asset side, mortgage lending, comprising home loans, loans against property, and affordable housing, is helping us build long-term relationships with our affluent and self-employed customers and also drive deposit mobilization through relationship value.

Our distribution and better digital journeys supported growth in our mortgage portfolio, which grew 14% and 4% QoQ. We also launched our hybrid home loan on a timely basis, and this has generated strong customer interest. However, on an overall basis, our portfolio continues to remain mostly floating.

Our gold loan book, while still relatively small, continues to grow strongly, aided by significant automation of the process that we have now delivered.

The unsecured portfolio that Devang spoke about, comprising personal loans, business loans, credit cards, and retail micro credit, is seeing good growth, and credit costs have normalized. However, we continue to remain focused on our risk metrics, which are within our risk appetite.

Personal loan and business loan grew 9% YoY and 4% QoQ. This is further strengthened by our offerings of both term loans and overdraft products for personal loans and business loans to our Solitaire and high-net-worth customers, in addition to mass affluent customers.

Regarding the credit card business, as we spoke about earlier, we restructured the business in terms of the right products and the right customers. As of September 2026, it grew 8.9% YoY and 8.3% QoQ, while the portfolio grew 7% YoY and 4% QoQ.

The Solitaire credit card has seen strong acceptance, very high brand recall, and demand from customers who bank with us. Our spend share is growing very nicely.

Retail micro credit grew about 18% YoY and 5% QoQ, supported by risk underwriting and the portfolio being covered under credit guarantee schemes.

In tractor loans, we maintain our position as a large financier within the segment. The business delivered 11% YoY and 3% QoQ growth, while we remain watchful of the potential El Niño-related risk.

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This is a business we have built over the last 2 decades, and we have a strong domain understanding of this business. We are present across the major geographies of India. The tractor is a product that is largely bought by the small and marginal farmers of India, who are the backbone of our country's agricultural economy.

Collection efficiencies in tractors have improved significantly, while we are seeing no visible impact on delinquency as of Q2 FY27. We remain very watchful of the evolving weather conditions. As you know, the rainfall deficit for this monsoon season has been about 13%.

With that, I will hand it over to Paritosh to take you through the next section.

Paritosh: Thank you, Anup. I will now take you through the performance of the institutional businesses. Our institutional and SME proposition continues to drive growth while leveraging the group's diversified financial services platform. Across these businesses, our focus is on deepening customer relationships, meeting customer needs holistically, and increasing our share of wallet to improve returns.

On the asset side, growth was broad-based across sectors and customer segments in the corporate bank, with the loan book growing by 25% YoY and 15% QoQ. Credit substitutes grew 44% YoY and 2% QoQ. On a combined assets basis, the corporate bank and credit substitutes grew 29% YoY and 11% QoQ.

Adjusting for the KMIL transferred book, the corporate banking loan book grew 17% YoY and 7% QoQ. Trade and supply chain finance grew strongly as we have invested in automation to serve our corporate customers and their ecosystem of vendors, dealers, and supply chain partners.

Gift City remains an important strategic driver to meet the global banking needs of our customers, including loans, trade finance, acquisition financing, securities services, deposits, and investments.

Alongside asset growth, we are focused on widening engagement across liabilities, transaction banking, and other income streams. This balanced mix of assets, liabilities, and fees is reflected in our healthy ROE in this business.

This quarter, fees across trade, foreign exchange, and debt syndication grew strongly. Corporate bank fee income grew 36% YoY and contributed 20% of the bank's total fee income. Corporate liabilities grew, driven by granular acquisitions, tax and trade flows, collection and payment services, and capital market deals.

Our investment in digital capabilities is paying off, with 5x YoY growth in acquiring UPIs and a 300-basis-point improvement in Nash market share.

Let me move to the capital market businesses. Our institutional capital market businesses performed strongly, driven by a rebound in primary markets and momentum across investment banking and institutional equities.

These businesses enabled us to serve corporate customers through several market transactions, including IPOs, block trades, and advisory mandates. Investment banking had a strong quarter across ECM and advisory and has a strong pipeline as well. Institutional equities maintained its

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leadership position with global and domestic institutional investors.

Cross-selling investment banking and institutional brokerage products added about 109 basis points to corporate banking ROE. Custody balances remained impacted by muted FII flows, although domestic traction was good.

Let me now move to the SME business. Our relationship-led SME franchise delivered healthy growth, with advances growing 27% YoY and 10% QoQ to about 1.4 lakh crores, now accounting for 24% of the bank's advances.

Prathosh – Management: Quality remained resilient. We have been an active participant in the government's ECLGS program and have sanctioned 11,200 crores of ECLGS credit.

SME remains a strategic priority for the bank. We see opportunities to expand primary banking relationships across both enterprise and personal banking, including private banking, affluent, retail, and corporate salary franchises.

Agri-SME, business banking, and corporate SME have been integrated to achieve improvement in productivity, standardization, automation, and customer journeys.

We continue to invest in distribution, customer acquisition, digital capabilities, and relationship management, and see significant opportunities for growth while maintaining portfolio quality.

Let me turn to our CBC business. We are stepping up growth while maintaining disciplined underwriting, ensuring strong collection practices and risk-adjusted returns.

In CBC, advances grew 8% YoY and 4% QoQ to over 47,000 crores and account for 8% of the bank's advances.

Let me now move to technology investments in the wholesale and institutional businesses. Across the franchise, investment in technology continues to improve client experience and operational efficiency. {? Finn ?}, our integrated corporate portal, saw a 34% YoY increase in corporate onboarding and about a 60% increase in its active customer base as more services became available on the platform. Digital adoption of working capital drawdown and customer service DIY journeys has increased substantially.

I will now hand over to Jaydeep to take us through the subsidiaries' performance.

Jaydeep – Management: Thank you, Prathosh. Let me now take you through the performance of our subsidiaries. In Q2 FY27, our subsidiaries reported a profit of 1,450 crores, up 18% YoY, contributing 26% of our consolidated profit.

Q2 PAT was impacted by negative MTM on capital market-linked equity investments and movements in the yield on our interest-bearing debt investments. However, underlying performance remains strong.

As I have mentioned in the past, one of Kotak's unique strengths is our ability to manufacture and distribute all major financial products through a single platform. With 100% ownership across our subsidiaries, we retain the full profit and embedded value created across the group.

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I will start with the lending subsidiary, Kotak Prime. PAT for the second quarter {? 27 ?} stood at 251 crores, up 2% YoY. The business continued to benefit from healthy growth of 12% in customer assets to 47,458 crores, while maintaining a disciplined approach towards portfolio quality.

In capital markets, the key development was the rebranding of our retail broking business as Kotak Neo, a unified customer-facing brand for retail investing, trading, and wealth management within the legal entity Kotak Securities Limited.

Kotak Securities reported Q2 FY27 PAT of 348 crores versus 345 crores in Q2 last year, mainly due to higher brokerage income being offset by an increase in technology spending and negative MTM on equity investments.

Kotak Neo maintained strong traction in Q2 FY27, with account acquisitions up 38% YoY. Bank-referred acquisitions grew 41% YoY and contributed 59% of total acquisitions, led by our mobile banking platform, reflecting the effectiveness of our digital distribution strategy and one Kotak collaboration.

The overall market share of Kotak Securities stood at 13.2%. Interest income also benefited from growth in the MTS book, with a steady market share of about 14%.

On the institutional side, Kotak Institutional Equities continues to be a leading broker for the largest global and domestic institutional investors. Our investment banking business, Kotak Mahindra Capital Company, also had a strong quarter, with improving deal momentum and sustained interest from both strategic buyers and financial sponsors.

As part of our one Kotak strategy, KII continued to deepen its collaboration with KMCC, our investment banking business, to distribute 13 IPOs/QIPs worth 6.6 billion US dollars. KII also executed 14 block trades worth 1.6 billion US dollars.

In the asset management business, Kotak AMC and Trust Company PAT for Q2 FY27 stood at 287 crores, up 11% YoY. This was on the back of average AUM growth of 12% YoY, which stood at 6,35,421 crores. The scale of this business continues to deliver steady profitability through the cycle, in line with AUM growth and supporting margins.

In alternate assets, Kotak Alternate Asset Managers continues to be one of India's leading domestic alternate asset managers, having raised over 11.8 billion US dollars since inception. Given the non-linear nature of the business, performance is best assessed over longer periods rather than quarter to quarter.

Carmel, which is Kotak Alternate Assets, standalone profit after tax for Q2 FY27 stood at 87 crores.

On the insurance side, Kotak Life Insurance shareholders' PAT stood at 198 crores. Year-over-year profit was 300%, but it should not be compared directly, as there was a one-time GST-related impact in Q2 FY26. Excluding that, the company continues to deliver steady profit growth.

Gross written premiums grew 21% YoY, while retail sum assured increased 23% YoY. AUM of the life insurance business grew to 1.12 lakh crores, up 14% YoY, underscoring the strength of our long-term savings franchise.

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I will now request the operator to begin the Q&A session.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to limit their questions to 2 questions per participant and to please use handsets while asking a question.

Ladies and gentlemen, we will now wait for a moment while the question queue assembles.

Operator: Our first question comes from the line of Kunal Shah with Citi. Please go ahead.

Kunal Shah – Citi: Thanks, team, for such a detailed disclosure on FCNR, not only on the balance sheet side but also across various P&L line items. I just want to understand the P&L implication for KMIL. Is KMIL only at the balance sheet level, or was there some income booking? Because, again, in the consolidated numbers, we have shown KMIL's profit separately. I want to understand the detailed implications of KMIL in the P&L.

The second question is on FCNR deployment. You indicated that it was largely towards the borrowings of KMIL, as well as running down the IBPC, and not much into customer assets as such. Do we then assume that there should be much better growth traction going forward as this excess liquidity gets utilized? Out of 55,000 crores, only 1,920 crores would have been utilized towards this. So there is a good chunk left to be deployed, and that should push the overall growth momentum further compared to what we saw in the first half.

Devang – Management: Hi, Kunal, {? Divang ?} here. To answer your question on KMIL, [hesitates] as you know, the KMIL loan transfer was part of the regulatory requirement. We transferred most of the eligible loans to the bank at the beginning of the quarter.

The loans that were transferred in the first month of the quarter have obviously started earning the required NII, and that is included in the Q2 performance. The loan income has already started being booked.

For the loan, obviously, the bank paid KMIL, and KMIL also had a net worth. Combined with the net worth and the amount received, KMIL has deployed the funds in investments, which are earning income and are reflected in the PBT of KMIL.

KMIL also has liabilities, which will be repaid as they mature as part of this funding that we received. KMIL also has a standard provision release that has occurred.

The P&L of KMIL that you see is because the loan was transferred from KMIL to the bank. The standard provision created on KMIL's books was released and booked in the bank. It was obviously booked in the bank, which we have disclosed, I think, in the {? EU ?} that is available. So that is the KMIL part of it.

Kunal Shah – Citi: Sorry, just one follow-up on this. When we look at it, would the interest income component be higher? You said that KMIL borrowings were repaid through FCNR. Should I assume that interest expense would be relatively lower on the KMIL book, or do we need to work with a

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slightly higher spread compared to the bank spread to determine the NII impact for KMIL?

Assuming 8,900 crores, should we consider a 6-7% spread on it, or do we have to take it on yield, assuming there is no interest liability?

Devang – Management: [pause] Kunal, let me try and clarify this very clearly. In the first week of July, KMIL's assets were transferred to the bank. When KMIL's assets were transferred to the bank, the funding of those assets would have come from the FCNR deposits.

In terms of the deployment of the 55,000 crores, {? Divang ?} mentioned that 9,600 crores went to fund the KMIL assets. Interest on those KMIL assets in the bank was accrued. Expenses were obviously there. Then there was a standard provision.

When you look at KMIL as the subsidiary, obviously the assets went out, and KMIL received a significant amount of cash. That cash was invested consistent with the risk appetite of that legal entity, and the profits shown in KMIL are those kinds of profits, plus the reversal of the standard provision in KMIL. Is that correct?

Kunal Shah – Citi: Perfect. So there would be some overlap between KMIL's credit cost and perhaps the reported numbers in KMIL.

Devang – Management: No, no, no, no. There is no overlap. KMIL's standard provision was released.

Kunal Shah – Citi: And here we booked it. Okay, got it. At the consolidated level, there is no impact.

Devang – Management: Exactly, exactly correct.

Prathosh – Management: At the consolidated level, there is a higher impact because, in real estate lending, which KMIL used to do, there was a lower provision in the NBFC. Once it comes to the bank, the provision is higher. There is a 1% standard asset provision in the bank, while in the NBFC it was only 0.4%.

Kunal Shah – Citi: Perfect, that helps. So the only thing was that NII growth sequentially on a core basis would have been closer to 4% compared to 6.7%, which includes KMIL.

Devang – Management: Kunal, KMIL is 9,600 crores. For one quarter, it is minimalistic, right? It is minimalistic, okay?

Kunal Shah – Citi: Agreed. Perfect, that helps.

Devang – Management: Regarding FCNR deployment, [pause] sorry, what was your question on FCNR deployment?

Kunal Shah – Citi: Largely, you mentioned that FCNR deployment was more towards KMIL and the IBPC run-down. We have not yet deployed it entirely into customer assets. In terms of the growth outlook, should we expect much better growth momentum because almost 25, 30, or 1,000 crores of FCNR would still have to be deployed into the lending ecosystem? Across which verticals would we look to deploy it? Thanks.

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Devang – Management: Kunal, besides the FCNR inflow and the liquidity, you see that core liquidity and deposits are also growing, right? The FCNR deployment will be in addition to the core deployment from core deposits. That is the first point.

As I mentioned clearly, the liquidity that has not yet been deployed will be deployed over the next few quarters to take advantage of the rate cycle, the tenure, and the segments that we would like to focus on going forward.

To that extent, yes, FCNR liquidity is in addition to the core growth of the bank, which will reflect going forward.

Kunal Shah – Citi: Perfect, got it. Thanks. That answers the question.

Operator: Thank you. Our next question comes from the line of Nitin Agarwal with Motilal Oswal. Please go ahead.

Nitin Agarwal – Motilal Oswal: Hi. Congratulations on the good results, and thank you for the opportunity. I have 2 questions.

The first is on FCNR B deposits. We have mobilized a very good quantum of deposits, all at a very low level of leverage loans, probably the lowest among the large banks. The bank is not really appreciated as much for its NR franchise or its mix of overseas assets. I am curious to know what has supported this strong mobilization for the bank. Could you provide some color around that?

Devang – Management: [pause] Nitin, first of all, thank you. I appreciate it.

One of the things that I have been talking about continuously is the key pillar of automation, digitization, and customer journey automation. We have been doing this across the bank, and it has benefited volumes across the bank. We have also been doing it quite significantly for the NR business.

One of the reasons that we have been able to get 12 partners across the Middle East and South Asia signed up is that the process we put into place and made easy for banks to work with us has really helped us obtain this disproportionately high market share.

Nitin Agarwal – Motilal Oswal: The other question is on unsecured assets.

Nitin Agarwal – Motilal Oswal: It seems that you are seeing some traction across all the unsecured segments. Is there any number or outlook in terms of how we want this mix to shape up? What kind of growth rate are we looking at? Will it continue to grow higher than the overall loan book?

Management: [pause] Your point is right. We have started talking about personal loans, business loans, micro credit, and credit cards. Credit costs are now within the risk appetite that we are comfortable with.

We do not want to make it very high growth, and we do not want to make it very low growth. I think the strength of the franchise is very strong. We are providing these products to a lot of our existing customers so that we get the right customer segment, but also at a lower cost.

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I think that is the core focus around the segment, and our relative market share is very, very small. Therefore, we do have an opportunity to grow this.

Nitin Agarwal – Motilal Oswal: Lastly, on the CV and CE business, we experienced some asset quality issues in that segment in the past, and we are now moving in a more measured way. How are we looking at the credit environment in this particular segment? Will we look to grow at a more calibrated pace, or what is the approach that we are going to take here?

Paritosh: Hi, this is Paritosh. In the CVC business in Q1, we were measured considering the impact of the war, and we were really monitoring the situation. But over the last couple of quarters, we have seen default rates coming down, our collection efficiency improving, and there is a reason for us to feel encouraged. We have also invested substantially in collection infrastructure in those businesses.

Hence, this remains a priority for the bank, and we continue to build this business further.

Nitin Agarwal – Motilal Oswal: Got that. Thank you. Thanks, everyone, for answering the questions.

Operator: Thank you. Ladies and gentlemen, in order that management is able to address questions from all participants in the queue, you are requested to limit yourselves to 2 questions only. If you have further questions, you may rejoin the queue.

Operator: Our next question comes from the line of Piran Engineer with Sidik International. Please go ahead.

Piran Engineer – Sidik International: Hi. Congratulations on the quarter, and thank you for taking my question.

Firstly, going back to the KML matter, KML will still be servicing the loan, right? It is just on our books, but they are the interface for the customer. Or are we absorbing those employees?

Management: Let me clarify this. There was a former business circular issued by the Reserve Bank of India, which said that you cannot conduct the same business in multiple legal entities.

As a result, we have said that all activities will be conducted from the bank, and therefore KML has transferred all the assets to the bank in a one-time transfer. KML is currently in the process of repaying its liabilities, and whatever capital remains, we will deal with it over a period of time.

So there is no question of KML continuing as an operating entity going forward.

Paritosh: All the loans have already been transferred. The employees have been transferred, and servicing is being done by the bank.

Piran Engineer – Sidik International: Okay, that is clear. Secondly, I think I heard you say that 20% of the fee income this time came from corporate banking. What was it last quarter and in the same quarter last year?

Paritosh: [pause] Let me check the number, and we will respond in a couple of minutes. Meanwhile, we can continue with the questions.

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Piran Engineer – Sidik International: Perfect. That is all from my end. Thanks, and all the best.

Operator: Thank you.

Paritosh: Sorry, sorry, sorry, Ravin. Last quarter also, 20% of the total fee income was from corporate banking.

Operator: Thank you. Sir, we will proceed to the next question. The participant has moved on from the queue.

Operator: Our next question comes from the line of Chintan from Autonomous. Please go ahead.

Chintan – Autonomous: Hi, good afternoon, and thank you for taking my question. Can I come back to KML again? On the NII, I want to confirm that you only have interest income from KML. You do not have any interest expenses.

Paritosh: Yes, only interest income. As Ashok mentioned, the entire book was—yes, that is the point.

Management: The entire book was transferred. The interest income on the loans that were transferred from KML to the bank for this quarter was booked in the bank. Therefore, the NII income on those loans has been reflected in the bank.

Paritosh: As Ashok mentioned, it is only {? 9,600 crore ?}, which is less than 2% of the total size of the bank's loan book. It does not have a significant impact. However, the NII, or interest income, on those loans is booked in the bank.

Management: KML received the money from the bank. Because KML received the money from the bank, it invested that money and therefore has interest earnings but no interest expense.

Chintan – Autonomous: Understood. Thank you. Just to clarify, separately, KML has been taken over at the same yields that were in the KML disclosures, right? If there is a fair value adjustment, I am wondering whether the yields were affected. Is it a similar 11% yield?

Paritosh: [pause] When you say yield, what do you mean?

Chintan – Autonomous: The loan yield.

Paritosh: KML had loans to the corporate segment as well as the real estate segment, totaling about {? 9,600 crores ?}. The yield in KML was marginally higher than the yield in the bank. There is about a 3% spread on the KML book, which is effectively being booked in the bank from Q2 onwards.

Management: The assets were simply moved from KML to the bank. Everything is the same in the bank.

Paritosh: Nothing changes. It is an assignment of loans from one entity to another entity. As far as the customer is concerned, the loan contract remains as it is.

Chintan – Autonomous: Got it. Thank you. Finally, on the deployment strategy, at the moment the money is sitting as liquidity. Could you enlighten us on what kind of yield and spreads you earn

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when it is sitting as liquidity? Are you making YS, or are you investing in 6-month bonds? How are you parking this liquidity? We want to understand how much the NII improvement could be in the following quarter.

Management: That is actually part of our treasury operations and treasury strategy. We are not going to get into a lot of detail as to what our treasury team does. However, as Devang pointed out, over the coming quarters, as these funds are deployed into customer assets to build a franchise, there will be some improvement and NIM pickup.

Chintan – Autonomous: Thank you.

Operator: Good day.

Management: Thank you.

Operator: Thank you. Our next question comes from the line of Sumit Kariwala with Goldman Sachs. Please go ahead.

Sumit Kariwala – Goldman Sachs: Hi, team. Congratulations on the great set of numbers. I had a question with respect to the loan growth outlook.

Loan growth is now towards the higher end of your guided range, at 2 times nominal GDP. Looking at the outlook, liquidity on the balance sheet is strong, loan growth is broad-based, and even term deposits need to be raised incrementally going forward. I am trying to understand whether it is fair to assume that this could continue.

Management: [pause] First of all, Sumit, hi. You know our stance on this, right? We always try to aim for between one and a half times and 2 times nominal GDP growth.

We look at opportunities in the marketplace, and you know that we have no restriction as far as liquidity or capital is concerned. Where we see an opportunity, we will grow.

However, it is always about profitable and responsible growth. That is the philosophy that we have been pursuing. We have brought credit costs under control and therefore remain focused on responsible and profitable growth.

Sumit Kariwala – Goldman Sachs: Thank you.

Management: Thanks, Sumit.

Operator: Thank you. Participants in the queue are requested to restrict themselves to 1 question only. Our next question comes from the line of Abhishek Murarka with HSBC. Please go ahead.

Abhishek Murarka – HSBC: Good afternoon, everyone, and congratulations on the quarter. How should we think about opex going forward? If you look at the last 2 years, it was 10% last year and, I think, 4% the year before.

We are now looking at probably higher growth in retail loans and overall higher loan growth. Even term deposits need to be raised incrementally going forward. How should we think about overall

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opex growth? I do not mean in cost-to-income terms. If we just think about opex, should it be in the mid-teens, low teens, or single digits? How should we think about it? Where are the investments required over the next, say, 2 years?

Management: [pause] When we think about opex growth, we divide it into a couple of buckets.

One big bucket is obviously acquisition costs. As I said, our aim is to grow at one and a half to 2 times nominal GDP growth. Where we see an opportunity for safe and profitable growth, we will pursue it aggressively. Therefore, if opex grows on account of acquisition costs, we really appreciate that.

The second bucket is technology. As you know, we are very strong believers in technology, automation, and digitization, and in leveraging AI across our business. Technology accounts for roughly 13% of our total opex. I suspect it will continue at that level on a forward basis because we will continue to invest in technology.

The third is marketing. I think you would have seen, and I hope you have seen, that our brand-building efforts have really paid off for the company. We want to continue with that as well.

Those are what we call good costs, and those are the kinds of costs that we would like to grow. Regarding other costs, such as fixed overhead, paper, or manual processes, we want to address them aggressively and cut costs to make the organization more efficient. We want to build the infrastructure so that, with additional volume, the marginal cost is very low.

In areas that add value, we are very happy to spend the money. In areas where we can become much more efficient, we will do so. I hope that gives you a sense of how we are looking at opex.

Abhishek Murarka – HSBC: In terms of the good costs that you mentioned, would that be, say, half or three-fourths of your overall costs? In terms of growth, would it lag loan growth?

Management: It will. First of all, we do not really disclose the different elements of costs other than what is reported.

Paritosh: [overlap] Asset is a good thing.

Management: We do not really disclose the different elements of costs other than what is reported. When we acquire customers, acquisition costs occur at the same time as loan origination and are therefore strongly linked to loan origination and deposit origination as well. That correlation is very, very sharp.

Abhishek Murarka – HSBC: Got it. Thank you so much. I will come back.

Management: Thank you.

Operator: Thank you. Our next question comes from the line of Riken Shah with IISL Capital. Please go ahead.

Riken Shah – IISL Capital: Hi, thanks, and congratulations on the very good FCNR mobilization in the quarter. I had 2 questions.

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The first is on the NIM trajectory. Devang highlighted the push and pull factors in Q3. While the full-quarter FCNR impact would be reflected, I am clear that margins will be moving up from Q4 onwards. Could you throw some light on that?

Management: [pause] We do not really provide margin guidance. Having said that, you know the repo rate, and you know that it takes about 3 months to flow through fully. You know the rate at which we deploy. You can do the math. It should not be significantly different.

Riken Shah – IISL Capital: Got it. The second question is on ECL. In the previous quarter, you had guided that recurring credit cost could be higher by 12–15 basis points or so.

Regarding the one-time transition, I appreciate that we have significant excess capital that can very easily take care of this transition. However, there would still be some adjustment required to be made in the net worth. Would you be able to quantify what that one-time impact could be on April 1?

Management: [pause] Riken, I had said earlier that the one-time effect would be less than 2% of net worth.

Regarding the recurring ECL cost, discussions have been going on. Some clarity is still emerging, and certain clarifications are also being discussed. While we had guided to the 12–15 basis point impact, I think we will have to wait for further clarity, which we are likely to get during Q3. But the one—

Management: —time impact will be less than 2% of net worth, as I had said earlier as well.

Riken Shah – IISL Capital: Got it, thanks. One data-related question, if I may. Could you split the loan book in terms of the percentage linked to repo, MCLR, and fixed rates? We know that the overall floating-to-fixed mix is 70/30, but could you provide the split between repo and MCLR as well?

Management: With the loan growth that we have seen through September, roughly 60% of the book is repo-linked.

Management: I am saying that this is repo-linked, not floating. Repo-linked.

Riken Shah – IISL Capital: Got it, and floating would be 70% in total.

Management: Around 65–70%, approximately.

Riken Shah – IISL Capital: Perfect. Thank you so much.

Management: Thank you.

Operator: Our next question comes from the line of Jayant Karote with Axis Capital. Please go ahead.

Jayant Karote – Axis Capital: Thanks for the opportunity. This question is probably on unsecured lending.

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If I look at what has happened over the last couple of quarters in unsecured lending, this quarter there was a big surge in personal loans, with movement of nearly 1,000 crores. We had seen something similar happening in Q3 and Q4, followed by a flat Q1.

The first question is on the sustainability of such a strong number. How should we think about the next couple of quarters?

The second question is on micro credit and credit cards. Credit cards have again had 2 good quarters back-to-back, with nearly 500 crores of accretion. Is there anything that you are doing differently, given that the industry seems to have a problem with the revolver book?

The third question is on micro credit. Tying all 3 together, I am trying to understand whether a run rate of 1,700-1,800 crores can be continued in the immediate future. Thank you.

Anup – MD & CEO: Hi, Anup here. As I said earlier, our relative market share in these unsecured products is very small. The strength of the brand franchise is very high.

Now that we have moved beyond the credit cost issue that I spoke about and credit cost is within the risk appetite threshold that we are comfortable with, we are granularly building the cards business, the personal loan business, the business loan business, and micro credit.

We do not want to rush it. We are focusing on offering these products to our existing customers.

Anup – MD & CEO: We are doing 100% guarantee. We feel reasonably comfortable that we should be able to grow this over a long period of time. The focus is on keeping costs down and working with our existing customers.

Anup – MD & CEO: When your size is small, you can do that. However, we went through a crisis, and we do not want to try to do it very fast. We will allow this to compound in value.

In unsecured lending, we have also started offering both term loans and overdraft products. Overdraft products are being offered to our affluent customers, and term loans are being offered to the mass affluent. That also provides a good corridor because these are products for which consumer demand is high.

Jayant Karote – Axis Capital: Would the new products have contributed meaningfully to this growth this quarter, or are they still too nascent?

Anup – MD & CEO: No, we are building them slowly and steadily. We feel good about providing products that meet customers' requirements.

Regarding credit cards specifically, this whole Solitaire proposition that we keep speaking about has started to play out. This is a product that was conceptualized a few years ago. We stacked the right products for the right customers, and through our branch channel, digital channels, and relationship managers for affluent customers, we are seeing good traction.

The product is such that when you have a good product, people start buying it. I think it is all about bringing the strength of the franchise into play.

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Jayant Karote – Axis Capital: Can I interpret the volatility we saw in personal loans last quarter—something like 1,000 going to zero and then back to 1,000—as something that should not happen from here?

Anup – MD & CEO: I do not want to go all the way back, because around last year we had done an inorganic portfolio of {? Stancy ?} that was being run down. That was causing the plus-minus movement.

I think that is pretty much over now. A very small portion is left, so now it is all the groundwork. I think it will be steady and will compound in value. There is traction because our branch channels are also offering these products quite well.

Jayant Karote – Axis Capital: Thanks, Anup. Can I squeeze in this particular question? Do you believe unsecured lending is a good tool for customer acquisition? That will be my last question.

Anup – MD & CEO: I never like unsecured lending to be used as a customer acquisition tool. In a bank, you have the advantage of obtaining good deposit customers.

Over time, by looking at the data of these customers, you have an enormous amount of information in a bank compared to others. You can cherry-pick and offer products to them through a digital experience with low friction. There are customers who are willing to take these products.

I do not like unsecured lending to be an acquisition tool. That never works.

Jayant Karote – Axis Capital: Perfect, and congratulations again on a great set of numbers this quarter.

Anup – MD & CEO: Thank you.

Operator: Our next question comes from the line of Jayprakash Mundra with ICICI Securities. Please go ahead.

Jayprakash Mundra – ICICI Securities: Hi, sir. Thank you for the opportunity, and congratulations, Anup, on your MD and CEO roles.

I have a few questions. First, Anup, on your thought process regarding the non-salaried segment. It appears that this segment is catered to more by NBFCs, including select NBFCs, and only on a calibrated basis by banks.

If you look at Kotak, are you under-indexed in that segment? Is there any thought to increase penetration in that segment, or will it be only a gradual, calibrated approach?

Anup – MD & CEO: Which segment was that? Can you repeat the question?

Jayprakash Mundra – ICICI Securities: The non-salaried segment.

Anup – MD & CEO: Non-salaried. As Ashok has clearly articulated, the strategy of the bank is built around 4+1+1.

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The first is affluent and private banking and high-value customers, which is affluent India. The second is Core India, which is the mass affluent segment that we cater to through 811, and which we are now broadening through the metal debit card. We are also getting good traction in the corporate segments.

The third is SME. The Kotak brand strongly resonates with the self-employed population of India. In my mind, that is a core strength of the bank.

Then, of course, there is the NBFC business, including tractors, CVC, micro credit, and gold. If I look at it, we want to play in all these segments in the right corridor.

We are building up the self-employed segment, which {? Paritosh ?} has discussed. Earlier, the SME business used to be divided among agriculture, consumer, and mid-corporate businesses. We have brought all of them under one umbrella, which is also helping us double down on the segment.

The focus is not only on giving lending products but also on whether we can get the customer to bank exclusively with us and whether we can get the customer to undertake family banking with us. The value lies in the overall relationship value of the self-employed customer rather than just providing a lending product.

Different institutions play differently. Our focus here will be on overall value. Banks can offer products that non-banks cannot offer. Think about it that way.

We are doubling down on this and also improving the process. My thinking is that if I can provide a very good process, people are willing to use it. If your market share is what it is, you can offer these products. I think we will be meaningful and steady, and simply double down on the core focus segments that Ashok had identified.

Jayprakash Mundra – ICICI Securities: Would you be able to indicate how much of the personal loan product is from the non-salaried segment? Would you expect it to be lower or higher than your peers, or is there scope to improve it?

Anup – MD & CEO: We do not disclose the specific split between salaried and non-salaried customers. However, based on the customer's opportunity, banking relationship, and relationship depth, we offer products to both salaried and self-employed customers, whether personal loans to salaried customers or unsecured business loans to non-individuals.

I think both have a fantastic opportunity. Given our relatively small size in this segment, we can find opportunities to grow. However, as I said, we will stay within the risk appetite corridor that is acceptable to us.

Jayprakash Mundra – ICICI Securities: Secondly, what is your thought process on cost to assets? It has improved and has been improving. This quarter, because of FCNR, it improved further to 2.4%. However, on a relative basis, we are still higher than your peer set. What is your thought process on this metric over the next 1-2 years?

Anup – MD & CEO: You will see some good improvement, which is reflected in that number. Of course, we have an ambition, but it is not right for me to provide forward guidance on it.

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The kind of focus we are trying to build is based on doing more with the same customer. If you build on a simple acquire-and-cross-sell model and continue to improve cross-selling, many of these metrics can show significant improvement.

As Ashok said, where we need to invest, we will invest, and where we need to take out costs, we will take out costs. We will look at it very, very carefully.

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

Ashok Vaswani: Thank you once again for joining us this afternoon. We really appreciate your time, and we look forward to seeing you for the third quarter in January. Thank you very much. Goodbye. Thank you.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.