Kotak Mahindra Bank Limited

Q2FY27 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Limited Q2FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an 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 Limited. Thank you, and over to you, sir.

Ashok Vaswani: Thank you, Dorwin. Good afternoon, everyone, and thank you for joining us this afternoon. I will, as usual, 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 INR5,645 crore in profit after tax, a growth of 26% YoY. Let me first talk about the Bank and then move to the subsidiaries. The Bank delivered profit after tax of INR 4,212 crore, up 29% YoY. This quarter's performance demonstrates that our strategy is translating into results. We're seeing encouraging traction across our focus customer segments, independent product businesses, while our investments in technology are clearly paying off.

In terms of balance sheet, our total average deposits grew 19% YoY. Within this, our CA and fixed-rate SA books grew at 17% YoY and 14%YoY, respectively. Excluding FCNR(B) deposits on an end-of-period basis, deposits grew by 13% YoY, 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 USD 5.78 billion or INR55,000 crore 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 tenor 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 Investment (KMIL) loan portfolio, run down relatively high cost deposits, and reduce 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% YoY, which includes INR16,000 crore of loans against FCNR(B) deposits and a transferred loan portfolio of around INR9,600 crore from Kotak Mahindra Investment. Excluding both of these, our core net advances grew 19% YoY, in line with our philosophy of growing our advances at 1.5x to 2x nominal GDP growth.

In the unsecured retail segment, as we have been saying, we continued to grow in absolute terms, with sequential growth now visible in personal loans, business loans, credit cards, and retail microcredit, i.e., across

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the board. Further, the benefits of our strong underwriting disciplines and enhanced collection capabilities are continuing to come through. This is reflected in credit costs, which improved to 35 basis points in Q2FY27 from 46 basis points in Q1FY27.

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 2.40% 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% YoY.

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

Bank's balance sheet grew 25% YoY, and the total balance sheet size at 30th September is now almost INR 9 lakh crore.

Profit before tax for Q2 was INR 5,579 crore, which grew by 29% YoY and 2% on a QoQ, driven strongly by the growth in NII of 16% YoY, non-interest income grew 23% YoY, sustained improvement in cost-to-assets ratio from 2.67% in Q2FY26 to 2.40% in Q2FY27, continued improvement in credit cost from 0.79% in Q2FY26 to 0.35% in Q2FY27. The operating profit also grew by 21% YoY and 4% on a QoQ basis.

Our advances grew 25% YoY and 13% QoQ. Excluding loans provided by 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% on a QoQ basis. Advances growth in Q2FY27 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 INR1,730 crore as against INR707 crore in Q1FY27. The growth mainly came in MFI, credit card, personal loan and business loan segment. This quarter also saw good traction in our commercial vehicle and construction equipment business.

During the quarter, there was a net reduction in the IBPC borrowing by INR 9,800 crore, utilizing the proceeds from the FCNR(B) mobilization. Coming to the deposits, our total deposits grew 23% YoY and 14% QoQ on an end-of-period basis, while the average deposits grew 19% YoY and 8% on a QoQ basis.

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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 average basis, and fixed-rate SA grew 14% YoY on average basis. Excluding FCNR(B) deposits, regular term deposits grew by 15% YoY on average basis. Further, we repaid high-cost certificate of deposits during the quarter. CASA ratio excluding FCNR(B) deposit was 41.8% as against 40.3% on June 30th.

Friends, while the FCNR(B) program is a one-off opportunity, let me highlight the financial implication on the Q2 results.

As Ashok mentioned, we mobilized INR55,344 crore in deposits, which is almost 9.7% of our June total deposit base. And we gave loans of INR16,100 crore, which is about 3.1% of our net advances at June 30th against FCNR(B) deposits. These deposits were deployed towards funding acquisition of KMIL loan, which is about INR 8,900 crore, and net repayment of IBPC amounting to INR 9,800 crore. Strategically, we will use this deposit to fund customer asset growth over next few quarters, taking advantage of the higher interest rate cycle.

Net interest margin for the quarter was 4.31%, a drop of 22 bps on sequential basis. FCNR(B) deposits and related advances contributed 15 bps to this drop. The balance drop was due to quarter-specific day count variation, which is consistent with the pattern observed in prior periods, and repayment of IBPC. The underlying core margin broadly remains same as quarter one, which is also reflected in the NII growth of 16%.

Going forward, NIM will reflect full-quarter impact of FCNR(B) mobilization, which will be offset by progressive deployment of FCNR(B) deposits in customer assets and repo rate transmission on floating-rate advances.

Cost of funds for Q2FY27 was 4.52%, which included impact of increase in share of term deposit on account of FCNR(B) mobilization. Our cost of fund continues to remain one of the lowest among large peers.

Non-interest income for Q2 grew 23% YoY. Excluding processing fee on the advances against FCNR(B) deposits, non-interest income grew by 17% YoY. Growth in this non-interest income was mainly driven by higher FX 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 INR 570 crore.

Our cost to asset for the quarter was at 2.40%, down from 2.66% in Q1FY27. The operating expenses grew by 14% YoY and 3% on a QoQ basis. Excluding one-time costs relating to borrowing by the Bank's international branches, total operating expense grew by 11% YoY and flat on a QoQ basis. We continue to invest in our brand and technology. Cost to income was at 45.2%, a YoY reduction of 160 bps.

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 improving to 0.24% compared to 0.27%, and provision coverage ratio remaining above 78%. Credit cost for the quarter, 35 bps compared to 46 bps in Q1, while slippage ratio declined to 0.85% from 1.03% sequential quarters. The unsecured portfolio continues to show improvement in credit cost, and delinquencies in retail CV have stabilized.

As of September 30th, the Bank's net worth is at INR1,45,984 crore, which includes INR10,958 crore of MTM gains on select investments accounted through the AFS reserve, which has not been routed through the profit

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and loss account. RoE for the Bank is 11.65% for the quarter; adjusting for this non-cash AFS reserve, the RoE improves to 12.55%.

Our 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 bps on a YoY basis.

This quarter's FCNR(B) mobilization has provided us significant liquidity, which will be deployed in customer assets over 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, customer assets stood at INR 6,99,250 crore, a growth of about 21% on a YoY basis. The group investment AUM increased to INR 8,14,118 crore, an increase of 8% on a YoY basis. The consolidated net worth of the group is now INR 1,94,706 crore, with the book value per share increased to INR 196, with a six-year CAGR of 16%.

Consolidated PAT for the quarter is INR 5,645 crore, which grew 26% YoY and 3% on a QoQ basis. Q2FY27 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 Saha: Thank you, Devang. Our retail strategy remained anchored on two focus segments; the affluent and private banking, and the core India. Private banking and affluent India continues to grow very nicely. Our Solitaire premium proposition continues to deliver strong outcomes. As of 30th September, the Bank managed a combined relationship value of INR 13.6 lakh crore across 90,000-plus families.

Kotak811, the cornerstone of core India strategy, of ours, is now much wider, much bigger. It's a scalable, digital first platform, which is driving customer acquisition through their digital strategy of 811 and is also being used as a platform for engagement and acquisition of customers at branches, our sales channel, and our corporate salary relationship. This differentiated proposition for mass-affluent has strengthened customer engagement, resulting in 34% YoY growth in savings balances and this now contributes 13.3% of the Bank's total savings...

Our deep conviction around core India strategy and our payment strategy has led to significant benefit for us in the changing MDR on UPI. As of 2026, our UPI issuer market share stood at 3.8%, ahead of our deposit market share. Further, 13.3% of Kotak's UPI remitter transactions by volumes are routed through our mobile application, underscoring preference of our digital ecosystem. In a way, we are possibly one of the few banks who have very strong payment strategy. It is the success of this two segments that is reflected in the momentum of our liability franchise.

Our CASA [excluding FCNR(B) Deposits] stood at 41.8%, up from 40.3%. In terms of the numbers, Devang spoke about. I'm going to skip the FCNR(B), since Devang has already discussed about that.

Moving to the asset side, mortgage lending, comprising of home loans, loans against property, and affordable housing, we are building long-term relationships with our affluent and self-employed customers and also

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driving deposit mobilization through the relationship value. Our distribution, better digital journeys, our mortgage portfolio grew at 14%YoY and 4% QoQ. We also launched our hybrid home loan on a timely basis, and this has generated strong customer interest. However, at an overall base, our portfolio continues to remain mostly floating.

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

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

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

Credit card business, which we earlier spoke about that we restacked the business in terms of 'right product to right customers', as of September 2026, spends grew 8.9% YoY and 8.3% QoQ, while portfolio grew 7% YoY and 4% QoQ. The Solitaire credit card has seen strong acceptance, very high brand recall and demand for the customers who bank with us, and our spends there is growing very nicely.

Retail microcredit grew about 18% YoY, 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 financer within the play, delivered 11% YoY and 3% QoQ, while we remain watchful of the potential El Nino-related risks. This is a business we have built over last two decades, and we have a strong domain understanding of this business, and are present across major geographies of India. This is a product, tractor, which is largely bought by the small and marginal farmers of India, who are the backbone of our country's agriculture economy. Collection efficiencies in tractors have improved significantly. While we are seeing no visible impact on delinquency as on Q2FY27, we remain very watchful of the evolving weather condition. All of us 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 Kashyap: Thank you, Anup. I will now take you through the performance of the institutional businesses. Our institutional and SME propositions 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 growth was 29% YoY and 11% QoQ. Adjusting for the KMIL transferred book, the corporate banking loan book grew 17% YoY and 7% QoQ.

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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, security 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 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 UPI and a 300 basis point improvement in NACH market share.

Let me move to capital market businesses. Our institutional capital market businesses performed strongly, driven by a rebound in primary market and momentum across investment banking and institutional equities. These businesses enabled us to serve corporate customers through several marquee transactions, including IPOs, block trades, and advisory mandates.

Investment banking had a strong quarter across ECM and advisory, and has a strong pipeline, too. Institutional equities maintained its 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 SME business. Our relationship-led SME franchise delivered healthy growth, with advances growing 27% YoY and 10% QoQ to about 1.4 lakh crore and now accounting for 24% of Bank's advances. Asset quality remained resilient. We have been an active participant in the government's ECLGS program and have sanctioned INR11,200 crore 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 franchise. 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 CV/CE business. We are stepping up growth while maintaining disciplined underwriting, ensuring strong collection practices and risk-adjusted return. In CV/CE, advances grew 8% YoY and 4% QoQ to over INR47,000 crore, and account for 8% of Bank's advances.

Let me now move to technology investments in the wholesale and institutional businesses. Across the franchise, the investment in technology continues to improve client experience and operational efficiency. Fyn, our integrated corporate portal, saw a 34% YoY increase in corporate onboarding and about 60% increase in

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active customer base as more services become available on the platform. Digital adoption of working capital drawdown and customer service DIY journeys have increased substantially.

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

Jaideep Hansraj: Thank you, Paritosh. Let me now take you through the performance of our subsidiaries.

In Q2FY27, our subsidiaries reported profit of INR1,450 crore, up 18% YoY, contributing to 26% of our consol profits. The Q2 PAT was impacted by negative MTM on capital market-linked equity investments and movement in yields 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 the 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.

I'll start with the lending subsidiary, Kotak Prime. PAT for Q2FY27 stood at INR251 crore, up 2% YoY. The business continues to benefit from healthy growth of 12% in customer assets to INR47,458 crore, while maintaining a disciplined approach towards portfolio quality.

On 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 saw Q2FY27 PAT of INR 348 crore versus INR 345 crore in Q2 last year, mainly due to higher brokerage income being offset by increase in technology spending and negative MTM on equity investments.

Kotak Neo maintained strong traction in Q2FY27, with account acquisitions up 38% YoY. Bank-referred acquisitions grew 41% YoY and contributed to 59% of total acquisitions, led by our mobile banking platforms, 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 MTF 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, KIE continued to deepen its collaboration with KMCC, our investment banking business, to distribute 13 IPOs/QIPs worth USD 6.6 billion. KIE also executed 14 ECM blocks worth USD 1.6 billion.

On the asset management business, the Kotak AMC and trustee company's PAT for Q2FY27 stood at INR 287 crore, up 11% YoY. This was on the back of average AUM growth of 12% YoY, which stood at INR 6,35,421 crore. The scale of this business continues to deliver steady profitability through the cycles, in line with AUM growth and supporting margins.

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On alternate assets, Kotak Alternate Asset Managers continues to be one of India's leading domestic alternate asset managers, having raised over USD 11.8 billion since inception. Given the non-linear nature of the business, performance is best assessed over longer periods rather than quarter-to-quarter. KAAML, which is Kotak Alternate Assets, profits after tax for Q2FY27, stood at INR87 crore.

On the insurance side, Kotak Life Insurance shareholders' PAT stood at INR198 crore. The YoY profits growth was a whopping 300%, but it should not be compared as there was a one-time GST-related impact in Q2 of FY26, excluding which the company continues to deliver steady profit growth. Gross written premium grew 21% YoY, while retail sum assured increased 23% YoY. AUM of the life insurance business grew to INR1.12 lakh crore, up 14% YoY, underscoring the strength of our long-term savings franchise.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Kunal Shah with Citi. Please go ahead.

Kunal Shah: Yeah. Thanks, team, for such a for such a detailed disclosure on FCNR, not only on the balance sheet side, but at various line items of P&L as well. Just want to understand in terms of the P&L implication for KMIL. So KMIL, is it only at the balance sheet level, or there was some income booking because, again, in the consolidated numbers, we have shown the profit of KMIL separately? So want to understand the implications detailed implications of KMIL in P&L.

And the second question is on FCNR(B) deployment. You indicated that largely it's towards the borrowings of KMIL as well as in running down the IBPC and not much into the customer assets as such. So then do we assume that maybe that should be a much better growth traction going forward as this excess liquidity gets utilized? Because out of 55, only 19, 20 would have been utilized towards it. So, there is a good chunk which is left to be deployed, and that should push the overall growth momentum further compared to what we saw in the first half.

Devang Gheewalla: Hi, Kunal. Devang here. So, to answer your question on KMIL, as you know, the KMIL loan transfer was a part of the regulatory requirement. So, we transferred in the beginning of the quarter most of the eligible loans to the Bank. So, the loans which got transferred in the first month of the quarter have started obviously earning the required NII, and that is included in the Q2 performance. So that loan income is already started booking in.

Now for the loan, Bank paid to KMIL, and KMIL also had a net worth. So combined with the net worth and the amount which was received, the KMIL has deployed it in investments, which is earning and which is reflected in the PBT of KMIL. KMIL also has liabilities, which will be repaid as it matures as a part of this funding which they've got.

But KMIL, of course, also has a standard provision release, which has happened. So, the P&L of the KMIL, what you see, because the loans got transferred from the KMIL to the Bank, the standard provision created on the KMIL books got released. And obviously got booked in the Bank, which we have disclosed I think in the EU which is there. So that's on the KMIL part of it.

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Kunal Shah: Sorry, just one thing. Just one part, so the follow-up on this. So, when we look at it, the interest income component would be higher because you said like KMIL borrowings were repaid through FCNR(B). So, should I assume that interest expense would be relatively lower on KMIL book, or maybe we need to work with slightly higher spread compared to the Bank spread to indicate in terms of how much could be the NII impact for KMIL? So just assuming maybe INR 8,900 crore, we need to consider it to be like 6%-7% spread on it, or maybe we have to take it on yield assuming that there is no interest liability?

Ashok Vaswani: Yes Kunal, let me try and clarify this very clearly. First week of July, KMIL's assets were transferred to the Bank. Okay? When KMIL's assets were transferred to the Bank, the funding of those assets would have come from the FCNR(B) deposits. So in terms of deployment of the 55,000, Devang mentioned about 9,600 went to fund the KMIL assets.

Interest on those KMIL assets in the Bank was accrued. Okay? Expenses were obviously there, and then there was a standard provision. Right? Now when you go to KMIL as the subsidiary, obviously the assets went out. They got a bunch of cash. That cash was invested consistent with the risk appetite of that legal entity, and the profits that are shown in KMIL is those kind of profits, plus reversal of standard provision in KMIL.

Kunal Shah: Perfect. Yeah. So there would be some overlap between KMIL credit cost and maybe the reported numbers out there in KMIL.

Ashok Vaswani: No, no. There is no overlap. KMIL standard provision was released.

Kunal Shah: And here we booked it. Okay, got it. At consolidated level, no impact. Perfect.

Ashok Vaswani: Exactly correct.

Paritosh Kashyap: Consolidated level, there is a higher impact because on real estate lending, which KMIL used to do, there was a lower provision in an NBFC, while once it comes to Bank, the provision is higher. So there is a 1% standard asset provision in the Bank, while in the NBFC it was only 0.4%.

Kunal Shah: Perfect. That helps. Yeah. So the only thing was NII growth sequentially on core basis would have been closer to 4-odd-percent compared to 6.7%, which is including KMIL.

Ashok Vaswani: Kunal, KMIL is INR 9,600 crore. For one quarter, it is minimalistic.

Kunal Shah: Agreed. Perfect. Yeah. That helps.

Ashok Vaswani: FCNR(B) deployment, sorry, what was your question on FCNR(B) deployment?

Kunal Shah: So largely, maybe you mentioned like FCNR(B) deployment was more towards KMIL and it was towards the IBPC rundown. So we have not yet deployed entirely into customer assets. So maybe in terms of the growth outlook, should we expect much better growth momentum because almost like 25, 30-odd-thousand crore of FCNR(B) would still have to be deployed into the lending ecosystem, and across what verticals we would look at it? Yeah. Thanks.

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Devang Gheewalla: So Kunal, see, besides the FCNR(B) inflow and the liquidity, you see the core liquidity and the deposits is also growing, right? So the FCNR(B) deployment will be in addition to the core deployment from the core deposit. So that is first, right?

And I think as I mentioned clearly, that liquidity which is not yet deployed will be deployed over the next few quarters to take advantage of the rate cycle and the tenure and the segment which we would like to focus going forward. So to that extent, yes, FCNR(B) liquidity is in addition to the core growth of the Bank, which will reflect going forward.

Kunal Shah: Perfect. Got it. Okay. Thanks. Yeah, that answers the question. Yeah.

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

Nitin Aggarwal: Hi. Congrats on good results and thanks for the opportunity. I have two questions. One is on the FCNR(B) deposits. We have mobilized very good quantum of deposits and all at a very low level of leveraged loans, and probably the lowest among the large banks.

But the Bank isn't really as much appreciated for the NR franchise or mix of overseas assets. So just curious to know what has supported this strong mobilization for the Bank? Any color around that?

Ashok Vaswani: So Nitin, first of all, thank you. Appreciate it. One of the things that I've been kind of talking about continuously is the key pillar of automation, digitization, and customer journey automation. And we've kind of doing it across the Bank, and that's benefited volumes across the Bank, but we've also been doing it quite significantly for the NR business.

And one of the reasons that we've actually been able to get 12 partners across the Middle East and South Asia signed up is because the process that we put into place and made it really easy for the banks to kind of work with us has really helped us get this disproportionately high market share.

Nitin Aggarwal: Right. And the other question is on the unsecured assets. Now that we are seeing some traction across all the unsecured segments, so any number or outlook in terms of how will we want this mix to shape up? What kind of growth rate we are looking at? Will it continue to grow higher than the overall loan book?

Anup Saha: So, I think your point is right. We have started seeing growth between personal loan, business loan, microcredit, and credit cards. The credit costs are now within the risk appetite of what we feel comfortable. Listen, we don't want to make it very high growth, we don't want to make it very low growth. I think the strength of the franchise is very strong. We are providing the products to a lot of our existing customer so that we get the rightful customer segment, but also at a lower cost. So, I think that's the core focus around the segment, and our relative market share is very small. So, we do have opportunity to grow this.

Nitin Aggarwal: Right. And lastly on the CV and CE business, also we did experience some, like, asset quality issues in that segment in the past, and we are now growing in a more measured way. So, how are you looking at the credit environment in this particular segment, and will we look to, like, grow at a more calibrated pace, or how is that approach that we are going to take here?

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Paritosh Kashyap: Hi, this is Paritosh. So, CV/CE business, in Q1 we were measured, considering the impact of war, and we were really trying to watch. But we are seeing over last couple of quarters the default rates have been coming down, our collection efficiency is improving, and that is the reason it gives us and we have really also invested substantially on collection infrastructure in those businesses. And hence, this remains a priority for the Bank, and we continue to build this business further.

Nitin Aggarwal: Got that. Thank you. Thanks, everyone, for answering the questions. Thanks.

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

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

Piran Engineer: Hi, team. Congrats on the quarter and thanks for taking my question. Just firstly going back to the KMIL thing, now KMIL will still be servicing the loan, right? It's just on our book, but they are the interface for the customer. Or are we absorbing those employers?

Ashok Vaswani: Let me try and clarify this thing. Right? There was a form of business circular issued by the Reserve Bank of India where they said that you can't do the same business in multiple legal entities. As a result of that, we have said all activities will be done in the Bank, and therefore KMIL has transferred, one-time transfer of all the assets to the Bank. KMIL currently is in the process of repaying its liabilities, and whatever capital is left, we will deal with it over a period of time. Right? So, there is no question of -- so KMIL will not be an operating entity going forward.

Paritosh Kashyap: All the loans have already been transferred, people have been transferred, servicing is being done by the Bank.

Piran Engineer: Okay. That's clear. And just 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 the same quarter last year?

Paritosh Kashyap: Maybe we will just pick up the number and respond in a couple of minutes. Meanwhile, we can continue with the question. Thanks.

Piran Engineer: Perfect. No. That's it from my end. Yeah. Thanks and all the best.

Paritosh Kashyap: Sorry, I mean, last quarter also was it a 20% of the total fee income was in corporate bank.

Moderator: Thank you. Sir, we'll proceed to the next question. The participant has moved on from the queue. Our next question comes from the line of Chintan from Autonomous. Please go ahead.

Chintan Joshi: Hi. Good afternoon, and thank you for taking my question. Can I come back on KMIL again? Sorry, just on the NII, I want to confirm. In the NII, you only have interest income from KMIL, you don't have any interest expenses?

Paritosh Kashyap: Yes, only interest income. As Ashok mentioned, the entire book…

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Chintan Joshi: Yeah, I understand the FCNR(B) point, yeah.

Paritosh Kashyap: Yeah, not the FCNR(B)**.** The interest income on the loan which got transferred from KMIL to the Bank for this quarter got booked in the Bank. So, that is the NII income on those loans have reflected in the Bank. But as Ashok mentioned, it's only INR 9,600 crore, which is less than 2% of the total size of the Bank loan book. It doesn't have a significant impact. But yes, the NII or interest income on those loans is booked in the Bank.

Ashok Vaswani: And KMIL got the money from the Bank, and because KMIL got the money from the Bank, it invested that money, and therefore has an interest earning, but no interest expense.

Chintan Joshi: No, okay. Understood that, yeah. Thank you so much on that. Just to clarify -- and then separately, KMIL has been taken over at the same yields that were in the KMIL disclosures, right? Because if there's a fair value adjustment, just wondering if the yields were trued up or something. Is it similar, 11% yield?

Paritosh Kashyap: When you say yield, means what?

Chintan Joshi: On loans.

Paritosh Kashyap: No. So, KMIL books had loans to corporate segment as well as to real estate segment, total of about INR 9,600 crore. The yield in KMIL was marginally higher than the yield in the Bank. And it's about 3% spread on the KMIL book, which effectively is being booked in the Bank from Q2 onwards.

Ashok Vaswani: The assets have just moved from KMIL to the bank.

Ashok Vaswani: Everything is the same in the Bank.

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

Chintan Joshi: Got it. Okay. Thank you. And then, finally, on the deployment strategy, you know, at the moment, if the money is sitting as liquidity, could you just enlighten us as to what kind of yields do you make or spreads do you make, when it is sitting as liquidity? Are you making like OIS, or are you kind of investing in 6-month bonds? Or how are you parking this liquidity, so we understand how much the NII improvement could be in the following quarter?

Ashok Vaswani: Yeah. So look, that is actually part of our treasury operations and treasury kind of strategy. We are not going to get into a lot of detail as to what our treasury folks do. But as Devang pointed out, that over the coming quarters, as this is that as these funds are deployed into customer assets to build a franchise, yes, there will be some improvement and NIM pick-up.

Chintan Joshi: Okay. Thank you. Okay, thank you. Good day.

Ashok Vaswani: Thank you.

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

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Sumeet Kariwala: Yeah. Hi, team. Congratulations on great set of numbers. I had a question with respect to loan growth outlook. The loan growth now is towards the higher end of your guided range, 2x nominal GDP. And the outlook over here, If I look at liquidity on the balance sheet, great, loan growth is broad-based. Trying to see if this is -- if it's a fair assumption that this could sustain?

Ashok Vaswani: So first of all, Sumit, hi. Our stance on this one, right? We always try and aim between 1.5 times to 2 times nominal GDP growth. We look at opportunities in the marketplace, and you know, that, we have no restrictions as far as liquidity or capital. Where we see the opportunity, we will grow. Right? But it's always about profitable and responsible growth. Right? And that's the philosophy that we have been kind of going after. We have got credit costs under control, and therefore, continued focus on responsible and profitable growth.

Sumeet Kariwala: Thank you.

Ashok Vaswani: Thanks, Sumeet.

Moderator: Thank you. Participants in the queue are requested to please restrict yourselves to one question only. Our next question comes from the line of Abhishek Murarka with HSBC. Please go ahead.

Abhishek Murarka: Yeah. Hi. Good afternoon, everyone, and congratulations for the quarter. So just how should we think about Opex growth going forward? If you see the last two years, it was 10% last year, and I think 4% the year before. Now we are looking at probably higher growth in retail loans, overall higher loan growth, even term deposits, etcetera., need to be raised incrementally going forward.

So how should we think about the overall opex growth? And I do not mean in cost-to-income terms. So if we just think about opex should it be mid-teens, low-teens, single-digit? How should we think about it? And where are the investments required in the next, say, two years?

Ashok Vaswani: Yeah. So look, when we think of opex growth, we divide it into a couple of buckets, right? One big bucket is obviously acquisition cost, and like I said, we our aim is to grow at 1.5 to 2 times nominal GDP growth, and where we see opportunity for safe and profitable growth, we will go aggressively at it. And therefore, if opex grows on account of acquisition costs, that we really, really appreciate.

Number two, the second bucket really is about technology, and as you know, we are very big believers in technology and in automating and digitizing, leveraging AI through our business. Technology accounts for roughly 13% of our total opex, and I suspect it will continue at that level on a go-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, and we want to continue with that as well. So those are what we call good costs, and those are the kind of costs that we would like to grow.

Now, other costs, which are like fixed overheads or paper, or processes which are manual, we want to go after them aggressively. Aggressively, and kind of cut costs to make the place more efficient and build the pipe so that the additional volume, the marginal cost is very, very low.

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So areas which add value, we are very happy spending the money. Areas which we can get much more efficient, we will. I hope that gives you a sense of how we are looking at opex.

Abhishek Murarka: Yeah. So if in terms of good costs that you say, would that be, say, half or three-fourths of your overall costs? And in terms of growth, would it lag loan growth?

Ashok Vaswani: We don't really disclose different elements of cost other than what is there, right? Now, when we get acquisition, obviously acquisition costs are at the same time as the loan origination, and therefore strongly linked to loan origination, and deposit origination for that matter, and that correlation is very, very sharp.

Abhishek Murarka: Got it. Thank you so much. I'll come back.

Ashok Vaswani: Thank you.

Moderator: Thank you. Our next question comes from the line of Rikin Shah with IIFL Capital. Please go ahead.

Rikin Shah: Hi. Thanks, and congrats on very good set of FCNR(B) mobilization in the quarter. I had two questions. First one on the NIM trajectory. Devang, you did highlight the pulls and push in the 3Q, while the full quarter FCNR(B) impact would be there, but we also would be deploying the excess liquidity. So is it fair to assume that the margins in 3Q dip and then they subsequently start recovering from 4Q onwards? That's my first question.

Devang Gheewalla: Rikin, hi. As I said, the third element of course, besides what you mentioned, is also the repo rate transmission on the floating-rate book, right, because that will start from October. Of course, in the Q3, the full effect will not be there, but the repo transmission effect will also start from Q3, and I think the full impact will be felt in Q4. So, I think these are the things we know today, and that is what will impact NIM going forward, basically.

Rikin Shah: But at balance, do you think that the positives can offset the negatives for 3Q? Just trying to understand the very near-term 3Q trajectory. 4Q onwards, I'm pretty clear that margins will be moving up. If you could throw any light on that?

Ashok Vaswani: See, look, we really don't provide margin guidance. Having said that, you know the repo rate and you know that it takes about 3 months to kind of bleed right through, right? You know that we deploy and the rate at which we deploy, right? So, you can kind of do the math, right? It shouldn't be significantly different.

Rikin Shah: Got it. And the second question is on ECL. I think in the previous quarter, you had guided that the recurring credit cost can be higher by 12, 15 basis points or so. But on the one-time transition, I do appreciate that we have excess significant capital, which can very easily take care of this transition, but there would still be some adjustment required to be made in the net worth. So, would you be able to quantify what that one-time impact could be on the 1st April?

Devang Gheewalla: Yeah. I think, Rikin, I had said that earlier that the one-time effect will be less than 2% of the net worth, which will be there. And on this recurring ECL cost also, there have been discussions going on actually, some clarity still emerging. There are certain clarifications also going on.

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So, I think while we had guided the 12 to 15 bps thing, I think that also - I think we will have to wait for further clarity, which we likely to get during Q3. But the one-time is about less than 2% of the net worth, which I had said earlier as well.

Rikin Shah: Got it. Thanks. And just one data keeping question, if I may. Could you split the loan book in terms of percentage linked to repo, MCLR, and fixed? We know overall floating fixed is 70/30, but just the split between repo, MCLR as well?

Devang Gheewalla: So, Rikin, with this loan growth of September which we have seen, roughly 60% of the book is repo-linked, roughly. This is repo-linked I'm saying. Not floating, repo-linked.

Rikin Shah: Got it. And floating would be 70%, total?

Devang Gheewalla: Around 65-70 between, sort of. Yeah.

Rikin Shah: Okay. Perfect. Thank you so much.

Moderator: Thank you. Our next question comes from the line of Jayant Kharote with Axis Capital. Please go ahead.

Jayant Kharote: Thanks for the opportunity. Probably this question is on unsecured. If I were to see what's happening since last couple of quarters on unsecured, this quarter there's a big surge in personal loans, movement of nearly I think INR 1,000 crore. We had seen something similar happen in 3Q, 4Q, and then 1Q was flattish. So, one is trying to understand the sustainability of a very strong number like this. How should we think of the next couple of quarters?

And second, within that, on microcredit and credit cards. So, credit card, again, you have good two quarters back-to-back of nearly INR 500 crore sort of accretion. Anything that you're doing differently, because the industry seems to have a problem on the revolver book?

And second is microcredit, given the El Niño, and then again, just tying all three together, I'm trying to understand if this INR 1,700 crore, INR 1,800 crore kind of run rate can be continued in the immediate near future. Thank you.

Anup Saha: Hi, Anup here. See, as I said earlier, our relative market share on this unsecured product is very small. The brand franchise strength is very high. So, now that we have come out of, what I spoke about, the credit cost, which is within our risk appetite threshold, which we feel comfortable about, we are granularly building the cards business, the PL business, the business loan, and also the microcredit. We don't want to rush it, but just focusing on offering it to our existing customer between PL, cards, and BL, and of course microcredit, where we are doing a 100% guarantee, we feel reasonably comfortable that we should be able to grow it over a long period of time. But the focus is around keeping the cost down, working with our existing customer so that, when your size is small, you can do, right? But, we went through a crisis, we do not want to try to do it very fast, but we will value compound on this.

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On the unsecured, we have also started offering both term loans and overdraft products. Overdraft products are being offered to our affluent customers, and the term loan is being offered to the mass affluent, and that also offers a good corridor because these are products in which consumer demand is high.

Jayant Kharote: And the new products would have contributed meaningfully to this growth this quarter, or still too nascent?

Anup Saha: No, I think we are slowly and steadily we're building, but we feel good about providing, you know, the products which meets customers' requirement. And on credit cards specifically, yes, I think this whole Solitaire, which we keep speaking about, has started really playing out. This is a product which got conceptualized few years back.

We stacked the right products for right customers, and between our branch channel, digital channels, between our relationship manager on affluent, we do see good traction. And, the product is such that when you think about a good product, people start buying it. So, I guess it's all about the strength of franchise which we are bringing it to play.

Jayant Kharote: And fair to say the volatility we saw in personal loans last quarter, something like that, INR 1,000 going to zero and then back to INR 1,000, something like that should not happen from here?

Anup Saha: What was happening, I do not want to go back to all way back, because last year around, we had done one inorganic portfolio of StanC, which was running down. So of course that was causing that plus minus. But I think that's pretty much off now. Very small is left, so now it's all grunt work. So, I think it'll be steady and value compounding. And there is traction because our branch channels are also offering these products quite nicely.

Jayant Kharote: Right. Anup, just to you this particular question if I could squeeze in. Do you believe unsecured is a good tool for customer acquisition? And that will be my last question.

Anup Saha: I never like unsecured to be a good tool. In a Bank, you have the advantage of great deposit customers which you get over time, looking at their customers' data, which you have enormous amount of information in a bank versus others. You just cherry-pick and offer them through a digital experience, low friction. I think there are customers who are willing to take. So, I don't like unsecured to be your acquisition tool. That never works.

Jayant Kharote: Perfect. And congrats again for a great set of numbers this quarter.

Moderator: Thank you. Our next question comes from the line of Jai Prakash Mundra with ICICI Securities. Please go ahead.

Jai Prakash Mundhra: Hi, sir. Thanks for the opportunity and congratulations, Anup, on your MD, CEO role. I have a few questions. First, Anup, on your thought process on non-salaried segment. It looks that this segment is catered more by NBFCs and select NBFCs, and maybe only calibrated basis by banks. If you look at Kotak, are you under-indexed on that segment? Is there any thought to increase penetration in that segment, or it would be only gradual, calibrated approach?

Anup Saha: What segment was it? Can you repeat?

Jai Prakash Mundhra: Sorry. Non-salaried segment.

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Anup Saha: See, listen. As Ashok has clearly articulated the strategy of the Bank, it is built around 4 plus 1 plus 1, which is the affluent and private banking and high-street, high customers, which is the affluent India. The second is the core India, which is the mass affluent, which we cater through our 811, and now we are broad-based through metal debit card. So even in the corporate segment, we are getting good traction. And the third is the SME. The brand Kotak very strongly resonates with the self-employed of India, and that's in my mind, a core moat of the Bank. And then, of course, the NBFC, the tractor, the CV/CE, the microcredit, and gold. I think if I look at it, we want to play in all these segments in a rightful corridor. Self-employed, of course, we are building it up.

What we have done is, earlier the SME used to be broken between, one in Agri, one in consumer, one in mid-corporate. We just brought all of them under one, which is also helping us to double down on it in terms of not only giving them lending products but in a way focus around, can I get the customer to sole banking with me?

Can I get this customer to do family banking with me? Because the value is in overall relationship value on self-employed rather than just giving a lending product. So I guess different license play differently. Our focus here would be to do overall value. And banks can offer products which non-banks cannot offer. Right?

If you think about it that way. So we are doubling down on that and also bringing the process. My thinking is if I can get a very good process, people are willing to take it. So there is and if your market share is what it is, you can offer. So I guess be meaningful and be steady, and just double down on the core focus segment which Ashok had called out.

Jai Prakash Mundhra: Right. And would you believe that in, let's say, PL product, how much will be the non-salaried segment? And would it be lower versus your peers, or higher, or is there any scope to improve that?

Anup Saha: We don't disclose specific split of salaried, non-salaried, but basis the opportunity of the customer, this is his banking relationship and the depth, we offer it to both salaried and self-employed, whether personal loan to salaried or unsecured business loan to these non-individuals. I guess both has fantastic opportunity, and our relative size being small on that, we can find opportunities to grow. But as I said, just stay on the corridor of the risk appetite which is acceptable to us.

Jai Prakash Mundhra: Right, okay. And secondly, on your thought process on cost to assets, right, so which has improved has been actually improving, and this quarter because of FCNR(B), it has improved further to 2.4. But if I look at a relative basis, you're still higher than your peer sets. What is your thought process over this matrix over the next one, two years? Cost to assets?

Anup Saha: Okay, listen. You see some good improvement just showing in that number. Of course, we have ambition. It is not right for me to give you a forward guidance on that. But with the kind of focus we're trying to build in, we're doing more from the same customer. Because if you built on a simple acquire and cross-sell model and continue to do better cross-sell, many of these metrics and can have significant improvement. But look at it, as Ashok said, where we need to invest, we'll invest, and where we need to take out costs, we'll take out costs. And we will be looking at it very clinically.

Moderator: 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.

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Ashok Vaswani: So thank you once again for joining us this afternoon. Really appreciate your time. And we will look forward to seeing you for the third quarter in January. Thank you very much. Bye-bye.

Anup Saha: Thank you.

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

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