



Kotak Mahindra Bank Q1 FY16 Earnings Conference Call

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MANAGEMENT: **MR. UDAY KOTAK – EXECUTIVE VICE CHAIRMAN &
MANAGING DIRECTOR, KOTAK MAHINDRA BANK**
MR. C. JAYARAM – JOINT MANAGING DIRECTOR
MR. DIPAK GUPTA – JOINT MANAGING DIRECTOR
MR. JAIMIN BHATT – PRESIDENT & GROUP CFO
**MR. MOHAN SHENOI – PRESIDENT, TREASURY & IN
CHARGE OF IMO**
MR. NARAYAN SA – PRESIDENT, COMMERCIAL BANKING
**MS. SHANTI EKAMBARAM – PRESIDENT, CONSUMER
BANKING**
MR. UDAY SAREEN – PRESIDENT, BANK IN A BANK

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Kotak Mahindra Bank Q1 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak. Thank you and over to you, sir.

Uday Kotak: Good Evening, Friends. Very happy to be on this call today. We will today start this discussion with a subject of merger rather than macro and I will like to share with you some specific points because this is the first call we are doing post the merger of the combined bank. In terms of the entire merger process, we have followed an un-peeling of the onion's process; starting with treasury, wholesale bank and a series of small businesses and support functions and now we will move to a full integration of the support functions in the next couple of months. We see integration of technology happen in Q4 of this fiscal year since both the banks operate on different core banking platforms. The technology integration on the wholesale side happens in this current quarter but the retail integration will happen in the fourth quarter. In general there has been, post the merger on April 1, positive employee response as of now on both sides, to the merger. Having said that, I must say that the integration process has been extremely intense and challenging.

Coming to earnings, yes, you would have seen the specific numbers at the bank and I will like to highlight the four significant delta items in the earnings. The first major significant provisioning item is the item on pensions, leave and gratuity provision which we have made for this quarter of Rs.339 crore with respect to the erstwhile ING Vysya Bank unionized employee base. The provision in the erstwhile ING Vysya Bank for the same, last year first quarter was Rs.32 crore. The total pension provisioning which the erstwhile ING Vysya Bank carried was about Rs.500 crore as of March and post this crosses Rs.800 crore.

The second big item is provisioning on NPLs and some investment write-downs. This number for the quarter, we have taken at Rs.305 crore compared to Rs.66 crore for Kotak Mahindra Bank's standalone in the immediate preceding quarter. A significant portion of this provisioning is coming from the books of erstwhile ING Vysya Bank.

Third, for this quarter we have taken incremental integration cost of Rs.63 crore which includes stamp duty paid on merger. In the immediately preceding March quarter, we had spent Rs.54 crore on integration. This includes direct variable cost but does not include employee and other cost of people involved in the integration. We have given our estimate of total integration cost at Rs.200 crore of which about Rs.120 crore is now covered between these two quarters. We continue with our estimate of a total not exceeding Rs.200 crore which means we have a balance of about Rs.80 crore to go over the next three quarters. We expect to complete the full integration by around April 2016.

Fourth; we offered 6% savings deposit rate to the savings account customers of erstwhile ING Vysya Bank above Rs.100,000 balances; that has cost us approximately Rs.30 crore in this quarter. One of the other strategic decisions which we took starting April 1 is identify the total stress in the erstwhile IVBL portfolio and we have moved that almost entirely into a separate division within our distressed asset division or what is commonly known as the “bad bank”. The total amount of stress and that includes different forms of stress including some loans which may not have become NPAs as of now on eIVBL portfolio is about 6% of the eIVBL book or 2.5% of the combined book.

Post these credit costs which we have taken in this quarter, our estimate of credit costs between now and March is incrementally around 50 basis points on the combined book. Post that we believe we will move to normalization of credit costs as we go into next financial year. Just for information, our credit cost last year was around 30 basis points for the full year on Kotak Mahindra Bank standalone.

I must mention also that with reference to the stressed book the most significant part of the stress is coming from the wholesale book of erstwhile ING Vysya Bank.

Loan growth, post the merger there are two important aspects of the loan books, since we have moved some part of the book into the stressed book that is into run down and resolve mode, but it continues to have been on the books as of the last year. Number two, there are some accounts which we have consolidated between the two banks and post consolidation the combined limits maybe lower than the sum total of the individual limits. For example, say in Kotak Mahindra Bank the amount was Rs.100 and in IVBL the amount was Rs.100, against the combined Rs.200, the new limits which we may have decided to give is say Rs.150, so there is some rationalization happening out of that as a result of which the loan growth in the first quarter is around 9% and we now guide after these adjustments to a loan growth for the full year between 15% and 20%.

I would also like to make one clear statement, if we go back to November 20, 2014 when we first announced the merger we had mentioned that we have done a due diligence of eIVBL books and have a certain estimate of what we think is the adjusted book versus the reported book. We have done a detailed estimate of that again after the merger and at the end of this quarter I am happy to report that our estimate of the adjusted book is broadly in line with our estimates as of November 2014. I would also like to mention that we are seeing a reasonable traction on the SA growth in particular and overall if you look at the combined bank, the year-on-year SA growth of the combined bank is about 30% and CA is about 20%. Having said that, we will discuss separately a full plan on the merger synergies which we will take you through but I do believe that the years 2016-17 should really give us very significant traction in the bank.

Beyond the bank into some of our group businesses, I am seeing excellent progress in two particular businesses, one is our life insurance business which for the first quarter has shown a

more than 100% growth in full year premiums. We believe that we are getting significant traction across different channels of distribution in our life insurance business and our year-on-year growth over last year for the full year looks to be pretty strong. The second area is asset management, my colleagues will talk about it but we have grown our assets under management from last June to now by more than 50% which includes growth in our domestic asset management business, in our equity corpus, in our offshore asset management business. So after a long time both the life insurance business and asset management business of the group are looking extremely robust and the future is looking significantly better.

With that I will now request my colleague Jaimin Bhatt to take you through some of the slides and thereafter to some of my colleagues around the table here on different aspects of the merger as well. Over to you Jaimin.

Jaimin Bhatt:

Thanks Uday. Just talking about the standalone bank first, as a result of adjustments which Uday talked about which included NPAs, retiral benefits, integration costs and what not, we end the first quarter with a profit post tax of Rs.190 crore. NIM for this period; we are at 4.2% which is post-merger, last year we were at 5% at standalone levels. The loan growth; we end this period now at Rs.103,000 crore of overall loans, Kotak Bank's loan book this time last year was Rs.57,000 crore, with eIVBL it would have been about Rs.94,000 crore so that is about a 9% growth there. Net NPA is now at 1.04%. CASA, as Uday mentioned has been a good growth at 34.2% CASA with both CA and SA showing good growth. This is excluding the sweep deposits which is another 5.6% of the overall deposit base. Tier-I continues to be pretty healthy post-merger on the basis of numbers we have in June, Tier-I at 15.3% and overall capital adequacy at 16.5%. We end this period with 1,260 branches as on June 30th.

Before we get into the full details of the merger, I will just show you a bit on what we did on the opening numbers. The two balance sheets of Kotak Mahindra Bank and ING Vysya Bank, we realigned them for some accounting policies and consequently we made a reduction in the net worth of roughly Rs.227 crore on the incoming book. The largest piece singly was the revaluation of fixed assets which was standing at Rs.101 crore, so that has been taken away and thereafter we did adjustments towards provisioning on non-performing assets, on amortization of sale to ARCs, on things like lease equalization etc. and net result we have got a reduction in net worth adjusted in the opening balance sheet of Rs.227 crore post tax.

Uday talked about the significant provisions which we have taken in this quarter through the merger so I kind of give that here and before I get into rest of the results I request Mohan and Uday Sareen to talk about the merger and the way we have gone about it.

Mohan Sheno:

Thank you Jaimin. I will take the first two slides and then hand it over to Uday Sareen. We have kept a fairly aggressive timeline to complete this merger in all respects, that is in terms of people, process and technology. As you are aware the RBI approval were received on 31st March this year and the day zero started with effect from 1st of April. As per our integration timeline we are

planning to complete this merger in all respects by April 2016. This means from now on we have about nine months to complete the merger.

On the next slide let me take you through what we have achieved in the last four months and some key highlights of the integration plan going forward. As already mentioned by Uday, we merged treasury on day zero in all respects; front, mid and back; people, process and technology. Wholesale banking front end and mid office have been fully merged while the back office is being merged next month along with system integration. The idea here is that all wholesale businesses should be merged first and that is how we have proceeded with this merger plan. Merging of support functions as Uday mentioned in his opening remarks is currently work in progress, there are a host of support functions like audit, legal, HR, operations, IT etc. which are being merged one by one as part of what Uday calls unpeeling of the onion. Support functions integration should be completed in the current quarter.

Our next focus will be on merging the retail asset business and in terms of the sequence we have kept retail liabilities and branch banking piece as the last piece for merger since RL integration has significant dependency on core banking systems; so that should happen by April 2016. On the people front I am happy to inform you that the IBA unionized employees are fully on board on this merger and are working towards the success of the merger.

We have also taken significant care to ensure that the softer aspects are not left out while we handle the numbers and the organization structure, etc. We have conducted the culture survey on both sides and we have designed various interventions for cultural alignment. Another soft aspect is keeping all the employees updated on the merger journey so that there is no scope for grey areas or rumors. On technology, there are five core IT systems with close to 120 secondary and satellite systems. Before day zero itself we had gone through a rigorous exercise of identifying go to or surviving systems for the combined entity in a phased manner. The system integration is being handled and complete system integration will happen by Q4 2016. Product conversions happened on day zero itself, so currently our efforts are to harmonize the underlying processes which we will time with the respective system integration.

Moving to the next slide, finally the whole purpose of the merger is to unlock the value for all the stakeholders. There are various revenue and cost synergies that have been identified by us and are being actively pursued by us. We have bucketed these synergies under six broad heads, Uday Sareen and I will take you through the key synergy levers and drivers in the next couple of minutes, Uday over to you.

Uday Sareen:

Thanks Mohan. So as Mohan mentioned, I am on slide seven so we will just focus on few elements here. So there are to the merger clearly, first, we said is value preservation and then we kind of move to the synergies and finally the transformational changes. If you look at the first quarter and I am basically reporting on the first 3.5 months since the merger; in the month of April entire network in what we call the “bank in a bank” which is the erstwhile IVBL network, all products converged, all front office trained on all products and I would just like you to focus

on the first column on the left hand side of this slide which talks about distribution synergy and this talks about six key elements which we are now I think moving from the value phase to actually first 60 days of reporting into some sort of synergy benefits which are starting to come in. The first one, the obvious one driving SA with 6%, that is a new offering for our entire erstwhile IVBL product base. Two three key metrics there, A, acquisition, what we are seeing is that the average ticket size of our acquisition on SA of the erstwhile IVBL network is up almost 40% compared to where it used to be, so in terms of just the acquired value we are seeing an increase in that. Second, I mean the big driver of CASA build up apart from acquisition is deepening of balances which means less attrition, clearly there is a metric there which we are beginning to see operate. For example, previously we used to have in the first quarter actually balance attrition but what we are seeing in Q1 over Q1 year-on-year at the branch level for core SA; the deepening metrics is actually positive. So both, I would say in terms of acquisition and in terms of deepening on the eIVBL network there is traction in terms of SA.

Moving on the distribution of Life Insurance products, we hit the ground running in the month of March itself where the entire eIVBL network is now selling Kotak Life products and I am confident that basically for this year we will definitely be growing faster than market in terms of Bancassurance both in terms of life insurance and on the asset management.

Moving on to the third distribution synergy which is the clear opportunity of cross sell of asset products on the former ING customer base and over the last couple of months we are seeing traction on three fronts, let me take you through them. To start with on the auto loans that was clearly a product which didn't exist in the bank in a bank, in the first quarter 206 of eIVBL branches actually sold an auto loan, so we are beginning to see traction within the first 60 days. The other such asset product we had is credit cards which again pretty much did not exist in the eIVBL network and if you look metrics on the standalone Kotak almost 18% of the customer base in Kotak has penetration of credit cards, so that is clearly the headroom which is available and we are beginning to see almost 200 branches coming into fold on credit card sales.

The third asset product I would like to mention here is tractor loans which again is quite relevant also for some of our erstwhile large semi-urban network, close to 250 branches today are offering tractor loan. So these are elements where we are seeing cross sell traction across asset products in the eIVBL network. Also, in terms of brokerage we now offer the Trinity account across the entire network and are tracking to getting to the 8% to 10% penetration which exists in standalone Kotak for the brokerage products. Apart from that, also to accelerate our SME model, one difference that we are seeing which we are beginning to work on is that while standalone earlier in ING the SME business was predominantly on the asset side but integrating the Current Account piece with the branches and SME is an opportunity and there is merit and traction on that front within the first quarter itself. So, those are some of the key six I would say low hanging fruits in terms of distribution synergies that is the extreme left part of the slide.

Also, on the Kotak network if you look at the third column so to speak on the slide which is new customer segments, here there is opportunity; the SME business on the eIVBL side, the

opportunity to cross sell across different Kotak customer segments also close to 400 ING clients which is the MMC clients are now Kotak customers and both, the opportunity for inbound business across different Kotak product verticals on the wholesale bank and financial markets is another new customer segment.. The third one over there is really building on the KCC business which is the Kisan Credit Business which existed in the eIVBL network and now taking that as a base and the opportunity to drive direct agri lending for small and medium farmers, there is progress and we are beginning to see some traction on that front.

Finally in terms of productivity synergies, clearly the opportunity and the headroom for growth to sweat the eIVBL network, just to give you some metric, SA per branch at standalone Kotak is about 50% higher than eIVBL, similarly CA per branch is roughly 25% higher, so that is the kind of headroom opportunity which exists and the team is kind of fully focused on as we integrate and get the technology right and move merged entity. We are beginning to see some early results and traction on clearly identified metrics for the eIVBL network.

With that Mohan will cover some of the other best practices and rationalization synergies on this slide itself.

Mohan Sheno:

Yes, let me take up the rationalization synergies. By and large the two networks are complementary in nature but in a few locations we have overlapping branches, so we have now list of all the overlapping branches and ATMs and as we relocate some of these overlapping branches and ATMs our client coverage will be wider and we expect some cost synergies also to accrue from these relocations.

Secondly, IT system rationalization that will accrue cost synergies but that will come only when the whole system integration is complete while a few synergies will accrue this year, bulk of the cost synergies on account of system integration is expected to accrue next year.

The third aspect is that a well thought out organizational structure will make the integrated system much more productive and efficient and we are currently in the process of finalizing the go to organization structure as various departments are merged to the go to structure we will find the efficiencies coming out. Many of our subsidiaries and various divisions of the bank are now in the process of moving from rented premises to premises owned by the merged entity, even this can accrue significant cost synergies to us.

Let me now move to the productivity synergy, most of the high cost liabilities of the erstwhile IVBLnetwork are currently getting repriced at lower rates. Being an AAA rated entity, our cost of liabilities is much lower as compared to the erstwhile IVBL, so such repricing at lower rates is expected to accelerate in the next few quarters, this could have significant impact on NII.

Coming to best practices, Kotak's strong risk management practices will help in improving the overall quality of the book. Also, our deep understanding and experience in management of stressed assets will help in better recoveries and then of course there are transformational

synergies which by achieving best in class industry benchmarks and digital transformational strategies we will be able to accrue synergy benefits on this front.

I will hand over to Dipak Gupta to take them on this piece.

Dipak Gupta:

So, Mohan mentioned about best practices and one of the things was about managing stressed assets. I think three months down the merger, we now have a far better handle on the overall book and its quality, especially the corporate book. What we have done is that we have sort of identified now, more or less, the stressed assets within this book and that typically would include customers and assets which are currently NPAs, assets which have been sold to ARCs, assets under CDRs, restructured assets and also assets which we think are sort of stressed but may not necessarily be NPA or restructured or under CDR at this point in time, they were typically what people understand as “watchlist” type of account, but expected stress in future. Now overall when you look at the book, we believe that about 6% of the eIVBL book, if you include funded and non-fund together is in various forms of stress; if you look at the combined book of eIVBL and Kotak now it should roughly be about 2.5% of the overall book and bulk of this as I mentioned, is in the corporate side, the SME including the retail book is pretty good.. So, what we have done post-merger is that once we had a better picture of these assets, we have sort of moved all of these stressed assets into what we call internally the “bad bank” and this is a sub-division of our asset reconstruction business. Now, that isolates the rest of the wholesale bank from the stressed assets and the rest of the wholesale bank can just continue business as usual. And from our side now we have our asset reconstruction team as well as other experienced team members going after all of these stressed assets for recovery, whether it is restructuring, or all of those aspects.

As Uday mentioned that we have been making some provisions already, we have made some provisions in this quarter also, net of all of these provisions when you look at what we expect as recovery we believe that probably for the remaining nine months of this year, we would need additional provisions of about 0.4% to 0.5% odd of the combined book. So, in the current year, there will probably be a small tail which will remain and thereafter it would probably just run like normal provisions in a normalized year for us. So, that is basically the approach and the figures on the stressed book and I will hand it back to Jaimin to carry forward.

Jaimin Bhatt:

Thanks Dipak. See slide nine which talks about the banks standalone profit and loss account, the net interest income for the entity in the current period is just short of Rs. 1600 crore; Rs.1,598 crore to be exact; the other income Rs.593 crore, if you combine the two entities last year has been a slight drop, coming in on the back of the fact that mutual fund distribution income this year has been lesser than the previous period. Last year one has also seen Kotak Bank having a large gold related income which is not there this year and some spike in other fees which were collected by eIVBL which is not there.

Employee cost; one sees a large number thanks to the retiral benefit which Uday took you through earlier. The other operating expenses this quarter Rs.665 crore includes the entire

amount of merger cost of Rs.63 crore which is sitting in that number. So, without that the other opex would be about Rs.600 crore. And post the provision hit for the current quarter at Rs.305 crore including Rs.266 crore on account of advances, the net result is Rs.292 crore pre-tax and Rs.190 crore post-tax for the quarter. Basically, on the net interest margins, as I mentioned 4.2% for this quarter, last year Kotak at standalone was about 4.8% and eIVBL at about 3.4% for this period.

Segment performance this time would look a little distorted, the treasury segment has taken the entire cost of integration, so the entire Rs.63 crore of costs is sitting in the treasury, BMU and what we call the corporate center. Plus, almost the entire cost of the retiral benefits is sitting in the retail segment since most of the employees are in that segment, so that number again looks much lower. On the overall advances, basically of the overall book of Rs.103,000 crore at the bank the corporate book is about just over 30% now, agri book at about Rs.15,000 crore, business banking which got the SME book coming in from erstwhile ING Vysya bank is now over Rs.21,000 crore, home loans again benefitted which came from the erstwhile ING Vysya bank is now at about Rs.21,000 crore and small business loans, personal loans, credit cards is around Rs.7,500 crore.

At the balance sheet level, we talked about the fact that both CA and SA have grown, CA growth on a year-on-year basis, if I include the eIVBL numbers as of June last year, has been 22% and savings at 30%. We have also seen pretty decent growth in the smaller ticket deposit base. As far as the asset quality is concerned, the restructured standard loans at 30th June are at Rs.418 crore which includes Rs.271 crore, which came in from the eIVBL portfolio and in this quarter, we have not had any CDR participation or transfer to ARCs or the 5:25 loans or conversion to balance sheet.

1,260 branches right now and with deposits which are lower than Rs.5 crore plus the CASA now contributing a healthy 70% of the overall deposit base. That is broadly where the consumer bank is headed, I will just request Shanti to talk about the digital focus.

Shanti Ekambaram:

So digital has been a focus area for us in the last 12 to 18 months, just wanted to highlight some of the key areas. A large part of our focus is around mobility because we believe that the growth in smartphones and the number of smartphone mobile users is where the digital is headed and our app is well rated amongst the well rated apps and we have over 80 features on the mobile banking side.

The second aspect is really about digital acquisition and digitization, this includes both on the liability as well as the asset side on the digital acquisition both savings account as well as personal asset like PL, credit cards etc. Digitization is another area of focus in both the asset and the liability side and we will be coming out with many more features as we go by. Our core strategy on digital is driven by data, by big data and analytics and we really analyze our customer portfolio to identify propensity and cross sell and we have run more than 800 campaigns of cross sell and have got good results as far as that is concerned.

Kotak was one of the first to introduce products on the social banking front through our Jifi and Jifi Saver Account and of course on Hashtag Banking and we have more than 23 banking services on Hashtag. We have recently started something very small on social commerce, which is, you can order a book, movie, tickets, etc. on social; we see social commerce increasing and a big area of focus.

Last but not the least, the entire digital journey is based on payments and we have introduced many products in the payment side including P2P payments, mail money, message money and integrated with mStore for travel, for hotels etc. We have received many recognition as far as that is concerned both in terms of independent surveys showing that our mobile penetration on our base is one of the highest and some innovation evolved.

To summarize, digital is a way of life, it is horizontal, permeating aspect of our assets and liabilities and we would be incrementally focusing on it as we go by.

Jaimin Bhatt:

Taking the consolidated numbers, the quarter saw the consolidated number at post-tax at Rs.517 crore, this is again after the hits which we have talked about in the bank. Capital adequacy at the consolidated level tier-I at 16.1% and overall at 17.2%. We now have a net worth at the total level of over Rs.30,000 crore and overall the balance sheet total assets up to Rs.209,000 crore.

Advances at the bank, if I look at again the combined bank Kotak plus eIVBL last year growth was about 9%. Among the non-banks the auto loans which are sitting in Kotak Prime now at about Rs.15,000 crore, roughly about a 13% growth over the same period last year. The other entities apart from the bank which contributed to profits, Prime having a share of Rs.119 crore post tax for this quarter, Kotak Life which is contributing Rs.66 crore on the back of healthy premium growths, this quarter on the individual first year premiums we have seen Rs.124 crore as against Rs.58 crore same period last year with the bank, including a lot of the eIVBL branches, now bringing in descent share, that itself contributing 48% of the overall individual premium numbers.

Even on the group side the growth of Kotak Life has been at 85% compared to industry at 40%. The asset management business which had a negative number last year contributes Rs.20 crore post-tax profit this quarter and as Uday mentioned we have seen AUMs grow significantly in various pockets, the international AUM or the offshore AUM going up from almost Rs.11,800 crore to Rs.21,000 crore on a year-on-year basis. The domestic equity funds again have grown to Rs.13,000 crore from less than Rs.5,000 crore in the same period last year. The international business on the back of the funds under management contributing Rs. 34 crore of post-tax profit for this period. And as I mentioned, Rs.30,000 crore is the overall net worth we end up at the consolidated level of which Rs.21,000 crore is in the bank.

That is broadly the highlights. We are open to taking questions.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Anish Tawakley from Barclays. Please go ahead.
- Anish Tawakley:** Two things wanted to understand, one, the stressed book, you mentioned about 6% of IVBL book is under stress, funded and non-funded, so I am just trying to get grip to that number that would be about Rs.75,000 crore as the base you are talking about there?
- Uday Kotak:** No, the base is around Rs.50,000 crore funded and non-funded, between Rs.50,000 crore and Rs.55,000 crore.
- Anish Tawakley:** So that you are saying you are adding the advances and the non-funded exposures?
- Uday Kotak:** That is correct and the reason why we have to do that is if you have got a funded exposure which is under stress and a non-funded exposure, it is reasonable to expect that at some point of time the non-funded exposure would also get into trouble and the way we look at it is total denominator of funded plus non-funded exposure which is about Rs.55,000 crore and the numerator is the total stress book of customers both funded and non-funded.
- Anish Tawakley:** The second thing I think Jamin mentioned, sort of fee growth does seem to have been very weak actually and I just wanted to understand how that works. Firstly, has all of ING Vysya's fee income gone into the bank or is that also been allocated to other entities?
- Uday Kotak:** No, I think the main reason why you are seeing this is keep in mind last year mutual fund distribution was a very significant part of fees, this year with the capping of fees and becoming more annuity that is a process which sort of elongates the fee income rather than making it upfront, so I think that is a very significant change which has happened between last year and this year in terms of our fee income on mutual fund commissions. Therefore in totality the value may still be there, but it is getting annuitized over a longer period. **Anish Tawakley:** Sorry, can I make sure I understand the numbers correctly. If I look at page 10, the fee and services has gone from Rs.315 crore to Rs. 418 crore, right?
- Jaimin Bhatt:** Yes.
- Anish Tawakley:** But ING had about Rs.200 crore of fee income last year excluding treasury, so am I reading that right it is a 25% drop?
- Uday Kotak:** Yes, but keep in mind two things, one is the mutual fund thing which is more on Kotak Bank standalone side and in the ING first quarter last year there were some more onetime fee incomes in the last year's first quarter which are not getting repeated in the current year's first quarter and these are the two major aspects and mutual fund actually year-on-year fee income and that is because earlier you could pay a lot, the fund used to pay a lot more upfront, now they are annuitizing according to the new sort of –arrangements so that is nearly 50% more than last year.

And with this I will ask Jayaram here to actually highlight what is happening on the fee income in mutual fund industry.

- C. Jayaram:** On the mutual fund distribution side, effectively what was happening till the new AMFI guidelines came was that the bulk of the distribution fees was being paid upfront to the distributor and the trail income was very small. I think, thanks to the latest AMFI guidelines, effectively what has happened is that the upfront amounts have got significantly reduced but the annuities have increased as a result of which over a period of time say a two year period the total income which accrues to the distributor is by and large the same, but it sort of gets elongated over a longer period of time as Uday mentioned.
- Jaimin Bhatt:** Having said that, I do not think the year-on-year drop of so called pro forma or that is combined is 25%, it is in our judgment less than 10%.
- Anish Tawakley:** And if I can clarify, this stuff that stopped sort of being discarded from ING Vysya's fee income if I can use that word, is there a corresponding non-funded exposure that has gone away and what is the movement in RWA?
- Uday Kotak:** As I mentioned that say for example if there was some non-funded exposure getting increased last year's first quarter to some of the accounts which we may have now put on the watch list, obviously we will not increase non-funded exposure in some of those accounts and the second is of course, one of the things in a merger is a lot of processes need to get integrated, so one area actually is the whole area of say processes for foreign exchange, the harmonization of documentation, contracts, so eIVBL had a particular contract for foreign exchange customer business, we had a different contract, so getting all those harmonized and standardized. So the first 30 to 60 days we did take time to settle down and that has cost us some revenues in the harmonization of processes particularly on things like FX which we integrated day one.
- Moderator:** Thank you very much. Our next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.
- Manish Karwa:** On your expenses, is this Rs.339 crore a one-off retiral benefit expense or some part of this thing may continue going forward also?
- Uday Kotak:** Manish, I will have to hang myself if this is a continuing item.
- Manish Karwa:** So nothing of this Rs.339 crore repeats?
- Uday Kotak:** We would like to believe so, and genuinely believe so that this is more a one-time requirement for catching up and sort of just highlighting that, first of all if you look at last year's ING Vysya Bank comparable number on their base for this quarter was Rs.32 crore, we are making it in this quarter of Rs.339 crore; the major part of this is going in to pension fund funding

Manish Karwa: Right. And second thing, when you say the stressed book is 6% of the erstwhile ING Bank, how much of that thing will be NPA and how much of that thing would be restructured and the rest?

Uday Kotak: Manish, as you know the wonders of stress in Indian banking take many colors, so there is NPA, there is restructured, there is CDR, there could be in some cases now the new popular thing is 5/25, there is rectification, there is ARCs, there is conversion of fund base to non-fund base, so instead of getting into all colors we have looked at the book in totality, forget what bucket it is in. Done a thorough scrubbing of the entire eIVBL book, identified accounts, gone account by account, most of it is in wholesale and come to a view that these accounts which are approximately 6% of ING Vysya's funded and non-funded book, isolated most of them, put them into a separate bucket with separate focus rather than clogging the wholesale banking or other business segments and going after that like any other stress acquisition which we would have done in our distressed asset division, and again I must make two points so that we are all clear about this, we had mentioned on 20th of November that we have done a diligence and as a part of that diligence we had done a pretty detailed internal working on our overall estimate of adjusted book after that diligence versus the reported book. What we are now seeing is that our estimate of adjusted book, the components maybe a little different between different categories but in totality our estimate of adjusted book today of eIVBL is in-line with what we had estimated as in November. And as a part of that we are also giving clear guidance that in addition to whatever we may have provided up to 30th June we expect total credit costs on the combined bank between now and March incrementally around 50 basis points and beyond that in the next year we see moving back to normalization of credit costs broadly in line with how we run our business historically. So this is the broad clear framework which we want to share with you, because this is the first meeting and it is very important for us to sort of lay it all clearly for you to know.

Manish Karwa: Sure. And lastly Uday when you mention that you will grow 15% to 20% which is the base that you are referring to, you are referring to a combined base of ING and...?

Uday Kotak: Combined base after adjusting for the fact that there is a part of the book which we are running down; the stressed book and there is a part of the book where as a part of consolidation the combined exposures we may be ready to take on the combined balance sheet would be lower; the individual exposures each of the banks were taking.

Manish Karwa: Right. And for ING the only book which you probably want to run down is the stressed book that you are talking about, everything else you are happy to grow that book?

Uday Kotak: Absolutely, that is pretty clear and as Dipak mentioned, we are finding the retail book to be in pretty good shape which includes retail and SME and even in the wholesale book other than what we have identified as stressed and there are maybe one or two accounts with stress which continue to be in the wholesale book within the corporate bank, but that is a very small percentage of the total 6%.

Manish Karwa: Okay. And lastly, would it be now fair to assume that all the one-offs that could have happened because of the merger has largely happened in this quarter?

Uday Kotak: Yes, this is our view, this is what I can tell you on 30th of July that there is a significant amount of pain which has been recognized between what was as a part of the opening balance sheet which Jaimin talked about and the provisioning for the quarter and from here on the balance book there is slightly higher credit costs we see for the next nine months which we have quantified as around 50 basis points and these higher credit costs arise from the fact that some of the book which is not an NPA on 30th of June, we are not in a position to take it to be legitimately provided against this and making a general contingency provision is something which we were not comfortable with and therefore we felt that we must give a reasonable estimate of what we think are our credit cost for the balance nine months which on the combined balance sheet we think is about 50 basis points. And Manish there is another point which is on integration cost, it is Rs.63 crore for this quarter, it was Rs.54 crore for the last quarter, our total guidance is Rs.200 crore so which means about Rs.80 crore over the balance three quarters.

Moderator: Thank you very much. Our next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Sir, firstly in terms of cost-to-income, even if we exclude some of the one-offs which are there in terms of employee costs as well as the Rs. 63 crore of integration, the overall cost-to-income is somewhere around 54% - 55%; so where do we see the cost-to-income during the entire integration phase that is up to April and on a sustainable basis for next two years?

Uday Kotak: Kunal, more difficult to give a judgment call over the next nine months but if I was trying to make an estimate for 2016-17, I would like to see in 2016-17 the cost-to-income ratio below 50% and that is what we will work towards.

Kunal Shah: Okay. And secondly in terms of this entire stressed pool, so what is the provisioning which we are carrying against this?

Uday Kotak: That is why Kunal again we have given a pretty clear position on this, there is an x amount of provisioning which we are carrying as of 30th of June and we are estimating credit cost on the combined loan book currently Rs.103,000 crore with the loan growth whatever that number comes to, on that broad range around 50 basis points as incremental credit cost coming out of the stress. We are the saying in next year we will see normalization.

Kunal Shah: Okay. And the question was in terms of say ING's book, okay so till the last reported quarter they had almost like Rs.575 crore, Rs.580 crore of restructuring and we already have almost like say Rs.133 odd crore kind of a restructuring, so now maybe the combined restructured pool which is there is Rs.418 crore, so has that got upgraded or this has actually got slipped into NPA?

Jaimin Bhatt: Kunal, Rs.418 crore which we talk about is restructured considered standard, so it is not necessarily comparable with the overall restructured number. The restructured which is anyways considered as NPA is not part of the Rs.418 crore. Even the number which we talked about, the Rs.418 is now about Rs.271 crore coming from the eIVBL book and the balance from our side, but that is restructured and considered standard, there could be other restructured which has fallen through the NPA gap and is now considered as NPA.

Kunal Shah: Okay, yes. And just one clarification, in terms of say when I back calculate the hit which we have taken on the net worth and say the profitability which is there for this quarter, so does it mean that say ING's net worth to the tune of Rs.7,780 has got consolidated?

Uday Kotak: Of course, everything is got consolidated, adjusted for opening balance sheet adjustment.

Jaimin Bhatt: So basically, we had the opening balance sheet and on that we have made the adjustment of Rs.227 crore.

Uday Kotak: Yes, but out of that Rs. 101 crore related to revaluation reserves which ING Vysya Bank had done five years ago and we have eliminated that revaluation reserves from our networth, so the balance is only Rs.126 crore which has been on account of NPA and other items.

And in addition to that whatever hit we have taken in this quarter has gone through P&L.

Moderator: Thank you very much. Our next question is from the line of Suruchi Jain from Morningstar. Please go ahead.

Suruchi Jain: Just two questions, firstly that you have not given some NIM guidance, anything on the NIM guidance front, anything that you can guide on for this year and for the coming year basis combined entity?

Uday Kotak: We are currently at about 4.2%, our guidance is 4%+ for the combined entity.

Suruchi Jain: Okay. And in terms of fee income growth, again any sense of how it is going to grow going forward basis the synergies that you are expecting?

Uday Kotak: I think, let me say we are confident that we will see improvement as we go through this year but the full benefits of synergy for the full year we see playing out in 2016-17. And as we have mentioned earlier, integration gets completed fully by April 2016, so the full next year is when we see the overall benefits on the synergies in totality and Mohan and Uday Sareen took you through line by line the five areas of synergies which we are working and which is there in the presentation as well.

Suruchi Jain: Sure. So no sort of numeric guidance there?

Uday Kotak: Not yet, give us some time to freeze and settle down.

- Suruchi Jain:** Sure, okay. And just one in terms of, there were some ESOPs in the erstwhile ING, have all of those vested at merger?
- Uday Kotak:** Yes, all of the ESOPs have vested, accelerated at the merger and it is already reflected to the extent to which employees have converted in our number of shares issued and we had given a clear position of that at the announcement that there was this very interesting clause which allowed full acceleration of ESOPs at merger.
- Suruchi Jain:** Okay. So no more dilution from here on basis that particular...?
- Uday Kotak:** Other than normal ESOPs which we issue but we can assure you that in Kotak Mahindra Bank on any corporate action there is no acceleration of ESOPs.
- Moderator:** Thank you. Our next question is from the line of Sampath Kumar from IIFL Capital. Please go ahead.
- Sampath Kumar:** Hi Uday, just have only one question. What is your new cost-to-income ratio guidance both for bank as well as the consol entity?
- Uday Kotak:** I think Sampath let me first say that I genuinely believe that our subsidiaries are certainly more efficient in managing their cost over years and especially over the last five or six years, so that is my one general statement which I always share with my colleagues and I am sharing with you. On the bank, as I have mentioned I would like to see in 2016-17 the cost-to-income ratio below 50%.
- Sampath Kumar:** Alright, so currently it is in the first quarter excluding the exceptional which is around 54, expect that to gradually turn down?
- Uday Kotak:** Absolutely because one of the important purpose of the merger is rationalization synergies or which you can call it cost synergies in addition to growth income synergies.
- Moderator:** Thank you very much. Our next question is from the line of Adarsh P from Nomura Securities. Please go ahead.
- Adarsh P:** Just another question on the stressed book, that included NPAs and is the whole 6% sitting out in that ARC or part of it is included in the NPA that you have reported because we have got increase in NPA anyways.
- Uday Kotak:** Yes, as Dipak mentioned some of it is sitting in NPA and some of it is sitting as restructured standard loans, some of it is sitting as CDRs, some of it sitting as SRs and some of it are regular loans which are not in any of those categories as of now. But yes, part of that 6% or combined 2.5% is already recognized in the NPA category.

- Jaimin Bhatt:** Just to clarify one thing, we have not transferred anything to ARC, what we talked about is we have an ARD division within the bank which is handling this.
- Uday Kotak:** And that bank is handled within the ARD division of the bank, we have not sold it to any ARC.
- Adarsh P:** Okay. The second question is obviously we just go back to last year, the standalone bank had a very optimistic fee growth guidance, you said DCM is a small part that will come through and you should see higher than balance sheet growth on the fee side and now we are seeing some slowdown. So if one takes a two years view including the ING business now and the base fees that was there, would that guidance get toned down a bit now?
- Uday Kotak:** No, I think let me tell you that as we talk right now we are seeing significant traction on the DCM business and we think the fx customer business as I mentioned to you had a little bit of a rough period post integration because of different contracts, different bases of approach to documentation standards, compliance standard and last year we also had an item which was exceptional item which was profit on bullion, which was a very temporary period for which that window was available, so that you have to adjust. But we see whatever we have guided in terms of some of the areas of non-loan growth we do not move away from that as we go through this year.
- Adarsh P:** Okay. So including this slowdown that we have seen now, so assuming we were expecting 20%, 25% fee growth and that makes it a 50% growth over a two year period that you still think on a combined basis you will be able to achieve?
- Uday Kotak:** Yes, except that we have to recognize that overall presence of ING Vysya bank was more in traditional banking and less in markets businesses.
- Adarsh P:** Yes, understand. Just squeezing another question, your SA growth post-merger looks good but I see some bit of contraction in the combined CA book, so if you can explain that; that needs to be some bit of about Rs.3,000 crore odd lower number, so I do now know if I am seeing the correct numbers.
- Uday Kotak:** I think the fact of the matter is again we do believe that there is more work to do on eIVBL network on CA book and that is work in progress.
- Jaimin Bhatt:** It is not Rs.3,000 crore, even if I look at December which is the last number eIVBL put out there were about Rs.7,000 crore, Kotak in December was about Rs.10,000 crore so that both put together Rs.18,000 crore which currently is about Rs.17,500 crore.
- Adarsh P:** Okay. So largely it was the exceptional 4Q for Kotak...
- Jaimin Bhatt:** Yes, quarter four is always spiky for everybody.

- Moderator:** Thank you. Our next question is from the line of Ashish Sharma from Enam Asset management. Please go ahead.
- Ashish Sharma:** This question on the CASA itself also, could you give us the number on the New-to-Bank CASA post the whole marketing campaign and just also wanted the number in terms of contribution from the ING branches?
- Uday Kotak:** Yes, as I mentioned I would like to say that the traction on the Kotak Bank branches is strong both on SA and CA, on the eIVBL branches we are seeing a good pickup on SA but we need more work to do on CA.
- Ashish Sharma:** Okay, but any number which can sort of quantify, even the whole for the full entity because we cannot compare the quarterly number, the New-to-Bank for that combined entity would be really helpful sir.
- Uday Kotak:** I would say that we at this stage would like to assume that the combined CASA growth for this year would be around 30% mark for the combined bank.
- Ashish Sharma:** That is helpful sir. And sir you raised up on this point on the growth part where you are seeing that the tepid growth number if you compare the comparable numbers for the merged entity vis-à-vis last year the growth is 9%, so would it fair to assume that in Q1 we were focusing more on the merger integration so this 9% is not sort of a comparable number to sort of too much stress on?
- Uday Kotak:** As I mentioned in the first quarter we were doing adjustments out of the merger, number one, the rundown book which was separately identified, so that is being run down which is 6% of the eIVBL book. Second, we have said that there were common exposures to the same entity by both the banks so assuming both the banks had 100 each exposure to the target entity the combined limits were 200. Post-merger based on the analysis we did we came to a combined limit number of 150, so that rationalization also had a sort of factoring in the number and therefore 9% is after all of that which is why we are guiding for the full year 15% to 20%.
- Ashish Sharma:** Perfect sir. And then sir just one clarification, the two one-off costs one is the Rs.63 crore and the Rs.339 crore is taken from the opex; employee expenses and other operating expenses?
- Jaimin Bhatt:** That's correct.
- Moderator:** Thank you very much. Our next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.
- Alpesh Mehta:** First question, what was the net worth at the time of transfer on 31st March for ING Vysya?

- Jaimin Bhatt:** The reports we have got from IVBL as of March is something which they have very specifically indicated that there is a confidentiality clause there, so I won't be able to tell you the exact number.
- Alpesh Mehta:** Okay. So the reason why I am asking this question is just wanted to check before the transfer did they recognize any of the loans that we are mentioning 6% as distressed loans?
- Uday Kotak:** The 6% includes the total gross flow, all the loans which were stressed in their book plus what we believe overall looked as stress, so it is a total gross number. And let me just repeat, that does not mean 6% is a loss.
- Alpesh Mehta:** Yes, sure. And did they take any one-off charge on the net worth before the transfer, any big one-off charge before the transfer because it is becoming slightly difficult considering the ESOP conversion doing the tallying off the net worth between the two entities?
- Jaimin Bhatt:** ESOP conversion will happen over a period, while they may have vested it is not that everything has got exercised and converted in the current period, so that will happen over a period. But you also need to mention which I talked about earlier, on the amalgamation there is a reserve created of Rs.122 crore which has got added to the entity's net worth right now.
- Alpesh Mehta:** Reserve created of Rs.122 crore.
- Jaimin Bhatt:** Yes, that is the amalgamation reserve which is there in Slide #3.
- Alpesh Mehta:** Okay. And the next question is related to our underlying trend on asset quality, how are you seeing the movement happening on that front?
- Uday Kotak:** I think overall keeping aside this stress, we feel reasonably comfortable with the rest of the asset quality.
- Alpesh Mehta:** And just a last question, we took Rs.30 crore for the savings account for increase by 2%, does that mean that the amount of SA deposits at ING Vysya was carrying was roughly Rs.6,000 crore having a more than Rs.100,000 balance?
- Uday Kotak:** Also take 5% on balances below Rs. 1 lakh which they were paying 4% on both.
- Moderator:** Thank you very much. Our next question is from the line of Vibha Batra from ICRA. Please go ahead.
- Vibha Batra:** My question is on the segmental results, if we see treasury, BMU, and corporate center, integration cost is netted off from those that is the net loss of Rs.89 crore, integration cost is Rs.63 crore barring that also this division made a loss?

- Jaimin Bhatt:** Yes, that is correct, that takes care of bulk of the Rs.63 crore has been the integration expenses which are setting here, net of that yes there has been some amount of loss which has been sitting there, also the incentive provisions which we have made for the entity as a whole would sit in what we call the corporate center, so that will hit again which in addition to the integration cost there are two other things, one is the whole IMO team which is people from both sides who are working full time, the IMO team is part of what is known as corporate center again and therefore that cost is sitting there which is not part of the Rs.63 crore, Rs.63 crore is only the external payouts. The IMO team which has senior people and the whole team working on that is part of the center cost there. In addition, treasury had a right down on some of the investment so that is the reason why it has also taken a loss there.
- Uday Kotak:** Some of those investments were credit investment in the form of debentures sitting on eIVBL book which were also marked down.
- Vibha Batra:** So it was because of the credit events or the yield moment?
- Uday Kotak:** Some of those were linked to credit events which were sitting in the eIVBL book which we had to mark them down.
- Vibha Batra:** Okay. So going forward what kind of profits or stress can be seen there?
- Uday Kotak:** That is what I mentioned earlier, it is about from now to end of March we see roughly credit cost at 50 basis points of the overall combined loan book. So for example if the combined loan book is estimated at around Rs. 1 lakh crore, it means Rs.500 crore for the rest of the nine months, whatever that loan book is broadly around 50 basis points of that.
- Vibha Batra:** Okay. And retail banking also, there is this retiral cost which has been netted off, so if we were to ignore that what kind of profit....
- Jaimin Bhatt:** As Uday mentioned the total number there is about Rs.339 crore, (+90%) of that has got hit to the retail bank.
- Vibha Batra:** Okay. But do you expect your risk-adjusted returns to improve in the retail group or worsen because...?
- Uday Kotak:** Yes, let me mention on the retail lending book our experience is good both on our book and on the eIVBL book; therefore on the combined book we do not have concerned on the retail and SME book.
- Vibha Batra:** Okay. And there is some positive movement on CV/CE book, so are you seeing some pickup there in that segment?
- Uday Kotak:** Yes, we are seeing clear pick up in commercial vehicles primarily HCVs.

- Vibha Batra:** Okay. Also LCV and construction equipment?
- Uday Kotak:** Narayan you want to talk about the construction equipment?
- Narayan SA:** Construction equipment, actually manufacture sales is also reasonably flat but we have started disbursing to that sector because we almost moved out of the sector so if you are to compare on a Y-on-Y basis of course it has gone up. And in commercial vehicle it is same, there were disbursement would have gone up substantially compared to what it was last year same quarter and the disbursal would have been maybe more than 50% compared to what it was last year same quarter.
- Vibha Batra:** And then finally can I have breakup by home loans and LAP out of the Rs.20,756 crore?
- Uday Kotak:** Around 50-50.
- Moderator:** Thank you very much. Our next question is from the line of Seshadri Sen from JP Morgan. Please go ahead.
- Seshadri Sen:** I have a couple of questions, firstly on the ARD book, you have been guiding for a certain sort of mark-to-market gains that you were sitting on and a time line for harvesting that, could you just refresh that in the context of what has happened recently and what kind of gains and the timelines for this?
- Dipak Gupta:** Well, this quarter there has been nothing exceptional but if you recall Q4 we had a couple of them, this is you see picky income and there are two parts of ARD piece, the corporate part and the retail piece, the retail piece is ongoing continuous income and profit stream, the corporate piece tends to be moving up and down but it is pretty good, I think we are getting recoveries in some of the places and though the legal environment is not as great as what one would have hoped to be but recoveries are happening.
- Seshadri Sen:** Okay. And your sort of total gains on that, you I think guided Rs.1,600 crore, Rs.1,700 crore over three years, that broadly remains the same, I know it is difficult to predict but...?
- Dipak Gupta:** Yes, it still remains about the same really, because you see a lot of those gains what we had mentioned largely are based on underlying collateral, unless you see serious depreciation or discounting on the collateral only then will you see that shifting, so that still remains. But yes, of course the more it gets delayed the more you lose on time value.
- Seshadri Sen:** Absolutely. The second question is on your home loan LAP book, there has been lot of reports on extreme stress in the real-estate sector, so both from an asset quality perspective and from especially on LAP and from a prospective growth perspective do you see any stress, any changes in the direction maybe lower growth in that book for a couple of year? I know you are a small player so maybe the whole system does not impact you that much even then.

- Shanti Ekambaram:** So let me just divide it into two parts, as far as the home loan book in the trend is concerned there is absolutely no sign of stress, it is absolutely stable, and the numbers that we have been seeing in the last two years continues. As you said we are a small player so from our perspective getting the growth that we want and we have been seeing the increase in growth is not an issue. Second, we have also ensured that we are doing more and more origination through our customer base and through our branches which has really helped both in the volume and equality. On the LAP side, again on our portfolio we have been absolutely stable, while the market has gone a little more aggressive whether it is on credit on tenure we have sort of try to ensure that we keep within our philosophy. So if we look at it right now both on growth and stress with respect to our book, we are not seeing any trends, however, we are being careful when we look at underwriting specially when there are aggressive cases and walk away from some of those calls.
- Moderator:** Thank you. Our next question is from the line of Amit Ganatra from Religare Investment. Please go ahead.
- Amit Ganatra:** I had a question on this, so stressed assets when you mentioned you have transferred to a separate division has there been any mark down which has been taken while doing this transfer or this is a transfer right now at face value?
- Uday Kotak:** No, vis-à-vis the legal entity, the bank this is a division within the bank.
- Amit Ganatra:** So basically it is just a transfer to separate division for special attention and focus?
- Uday Kotak:** Absolutely and whatever we may do from a management point of view in terms of incentivizing that division that is internally within the legal entity. What you see is the numbers, the totality and whatever provisioning we need to do from a financial point of view we are doing it through the P&L as required.
- Amit Ganatra:** Correct. So now this quarter provisioning which was done this would also largely be basically belonging to this stress assets pool which you have recognized?
- Uday Kotak:** That's correct which is why I said out of the Rs.305 crore provisioning a significant portion is out of that book.
- Amit Ganatra:** So based on what you have already basically provided and what you intent to provide and considering their size it assumes round like 20% to 25% haircut is what the assumption is?
- Uday Kotak:** Yes, in addition to what we have provided and I think Jaimin also mentioned some adjustments in the opening balance sheet, in addition to that we have given guidance of credit cost incrementally on the combined entity, that may include some credit cost on the non-stress book as well of around 50 basis points.
- Moderator:** Thank you very much. Our next question is from the line of Nilanjan from Jefferies. Please go ahead.

- Nilanjan:** Hi Uday, this is Nilanjan. Quick question, so if I look at the total charges, so there is a Rs.227 crore knock-on on equity and I guess it has to be cash basis only, I mean even though it looks like an accounting adjustment then we have Rs.339 crore of retirals in cash. Then about let's say somewhere around Rs.270, Rs.280 crore is the hair cut we took this quarter and another 50 basis points another Rs.500 crore, then about Rs.30 crore in savings and what we are seeing is a 200 crore in totality in other merger cost. Is that all we are looking as the total cost of the merger?
- Uday Kotak:** I think, while individual numbers we may have maybe marginally different but in totality we believe that beyond that we move to normalization.
- Nilanjan:** Is this number what you had expected?
- Uday Kotak:** And around savings remember one thing, Rs.30 crore is for the quarter, the 6% we continue to pay.
- Nilanjan:** Yes, I mean this is one-time sort of bringing up the entire savings of the curve?
- Uday Kotak:** Yes, and integration cost we have maximum around Rs.200 crore post which we are in normalization as well out of which Rs.120 crore is provided.
- Nilanjan:** And that includes that Rs.63 crore we mentioned in Slide #3?
- Uday Kotak:** That's correct and Rs.54 crore provided last year's last quarter.
- Nilanjan:** Correct, okay. And therefore the only ongoing thing is basically on the savings and that 50 basis points which you had mentioned?
- Uday Kotak:** 50 basis points is for nine months, thereafter it normalizes.
- Nilanjan:** Sure, okay great. Second question, of this Rs.50,000-Rs.55,000 crore which has been put into that department any...
- Uday Kotak:** Rs.50,000-Rs.55,000 crore is the total loan fund and non-fund exposure of eIVBL of which 6% is what we consider as total strength.
- Nilanjan:** Correct, I am sorry. So could we have some color there on how many number of accounts where maybe you have joint exposure, number of accounts which are more than Rs.500 crore or Rs.100 crore, any sort of guidance? And second part related to this is, what kind of collateral do you hold financial as well as physical on this 6% book if you can share some thoughts on this, thank you.
- Dipak Gupta:** Well, you put all of that in the boiling pot and we have tried to make it easy for you by saying that this is what we provide and this is what we expect to provide additionally, so I think from that point it should be pretty easy for you, beyond that it is very difficult to dissect and say how

much is this way and how much is that way. But when you talk of provision it is net of what we expect the recovery to be based on whatever collateral we may have or whatever cash flows and other securities we probably have in our control. So this is the provision figure nets off all of that really, that's what we expect to ultimately collect and the balance is what gets provided for.

- Uday Kotak:** And let me also mention that I do not think there is any account of more than Rs.500 crore.
- Dipak Gupta:** Yes, there won't be any account of Rs.500 crore, there are not too many accounts which are common. In totality they are probably not too many accounts at least from the corporate side.
- Nilanjan:** And this is largely corporate is what you are suggesting?
- Dipak Gupta:** Bulk of it is corporate, yes.
- Moderator:** Thank you. Our next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.
- Rahul Jain:** First is on this incremental credit cost that you are talking about, just to clarify this pertains mainly to the ING stress book that you have talked about right, erstwhile ING book?
- Dipak Gupta:** Yes.
- Rahul Jain:** Okay. And if I may ask, what kind of LGDs would you be assuming and would that be a very different then what it would be for your own book, own originated?
- Dipak Gupta:** I do not think it is comparable because these are different assets and loans with different collaterals and security structures, a lot of them may not necessarily have adequate collaterals or security structure so that's why the LGDs become very different really. When we say this is what we think the provision is it assumes a certain amount of recoverability within the period of time. So provision is net of that.
- Rahul Jain:** Yes, I am asking this question because when I look at ING's third quarter stress book which is restructured plus NPLs they were holding about I think 35% to 38% kind of PCR on that and with this 50 basis points incremental that you are talking about then this definitely would be much higher...
- Dipak Gupta:** Rahul, you are talking about different number now, the base is different.
- Uday Kotak:** Rahul we are also saying not only what was reported as NPA restructured as of 31st December, there would be more NPAs and more restructured and also some of them are soft accounts which may not be NPAs as of 30th June.

Rahul Jain: Yes, fair enough. Second one, what kind of a growth that we are looking for after we settled down with this whole integration for getting into 2016 and 2017 and what would be the key drivers of this growth that we would be envisaging?

Uday Kotak: I think even while we are settling down we are giving you a guidance of 15% to 20% this year and obviously it depends on the economy but we are finding some of the engines firing even pretty well right now. Our consumer bank side is growing at (+25%) on the lending side, the SME business of ING is positive Y-on-Y for the first quarter and as it settles down we see that pick up as we integrate the two. So we actually find a very significant traction, now we are seeing pick up in the commercial bank also with commercial vehicles coming back and we have also started adding some traction on construction equipment steadily. So we are finding lots of areas where we are seeing green shoots in terms of growth. On the wholesale side I believe that a very significant portion of the top-end credit on the wholesale is moving out of banks into markets and that is where we are ensuring that we are focusing both on the storage side and also on the market side because finally if that is where the business is moving we better capture that business for better rated corporate to the markets which is why I mentioned in the last call and I am reiterating that, we are seeing pretty positive traction in the DCM business.

Rahul Jain: Yes. Just on the CV point which you have talked about, so our ING branches also have started to originate these kind of loans and of course in the geographies that they have been originating and of course dealer connections that you may have in those geographies especially in south say Karnataka or Telangana or Andhra Pradesh region?

Uday Kotak: I think Uday Sareen mentioned not commercial vehicles yet, but other categories which he mentioned which is car loan, tractors, credit cards.

Rahul Jain: Okay. And just some final question on the CASA ratio, again looking at say 2016-17 what would be your internal target to kind of to meet for CASA ratio?

Uday Kotak: I think one of the biggest attractions to us of this merger is very significant growth in our liability franchise and with a 6% proposition which we think is a very powerful proposition for acquisition and getting more of the SME customer base on synergizing with CA we actually feel that there is significant upside on growth on CASA as we go forward and at some point of time including on the Kotak core network we believe that we have reached a certain traction and momentum which has taken us a few years to get there but from now on we see the whole liability story as something we feel very confident about.

Moderator: Thank you. Ladies and Gentlemen we will take our last question now which is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: Just moving away to subsidiary, life insurance has had a fairly phenomenal quarter, what exactly transpired there and how much of that is sustainable?

Uday Kotak: Just do not look at 125% for the full year. Having said that, we believe that two or three things are going for it, we have got a very significant traction on the Bancassurance piece, now particularly with the merged entity and both eKMB and eIVBL both of them seem to be firing on the life insurance. Number two, we are getting our act together much better on the Tied Agency piece and it's last two year's of significantly transformational work which has been done by the life insurance company which is giving us traction even on the Tied Agency piece of business which many people have cut down and therefore actually we feel extremely positive about the health of our life insurance business.

Moderator: Thank you very much. Ladies and Gentlemen that was our last question. I now hand the conference over to Mr. Kotak for closing comments. Over to you, sir.

Uday Kotak: Friends thank you very much and I just wanted to say that this has been a very important quarter in the history of our institution as we brought two major institutions together. I would say from the point of view of the process of integration we feel that we are really reasonably under control of the overall integration process. There are lots of thing to be done over the next six to nine months which we are very focused on. As far as the financials are concerned we had promised to you last quarter and even on the announcement that we will come back to you with a pretty clear picture, try, and eliminate uncertainty on that picture when we come to you with a June quarter results. We have done what we needed to appropriately do for the June quarter, we have given you our best estimates at this point of time on what we think we need to do from now till the end of the year and we therefore believe that going into 2016-17 we will begin to see the benefits of synergy almost from now every quarter as we go into the future, but full steam sort of advantages of synergies of a pretty normalized book and the state of affairs and go into through this year into next with a very-very confident base of significant transformation of Kotak Mahindra Bank. And I thank you all for this call, this is a very important call and really appreciate your participation. Thank you very much.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of Kotak Mahindra Bank that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.