Kotak Mahindra Bank Limited

Q1FY26 Earnings Conference Call

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Safe Harbour

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Moderator: Ladies and Gentlemen, Good day and Welcome to the Kotak Mahindra Bank Q1 FY '26 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Ashok Vaswani: Thank you. Thank you so much, Operator. Good evening, everyone, and thank you so much for joining us.

A lot has happened this quarter.

Economic growth continues to be benign as reflected in the RBI estimated GDP growth number of 6.5% in Q1 FY '26 and for the full year FY '26. To promote growth, the RBI has infused liquidity and cut repo rates by a total of 100 basis points in the last 6 months.

However, the cut in interest rates have not yet stimulated demand for Bank credit. Generally speaking, while the corporate balance sheets are healthy, we are not yet seeing momentum in private capital expenditure.

In addition, sales of commercial vehicles, passenger vehicles and construction equipment have been soft. The pace of retail credit growth has come down. Rural India should fare better given the start of a good monsoon season.

And finally, there is still a high level of uncertainty on the geopolitical arena and trade tariffs.

All of the above, of course, has had an impact on the business.

But, we have driven healthy growth of 14% and 15% in net advances and deposits respectively on a year-on-year basis. This continues to be in line with our philosophy of growing our advances in the range of 1.5x to 2x times that of nominal GDP growth. We continue to see granular growth and our CASA ratio is comfortable at 40.9%.

The repo rate cuts combined with change in product mix, offset by reduction in deposit rates, have impacted NIM. The actual reduction is affected by the timing of the transmission of rate cut to the floating rate asset book, about 60% of our total book and the deposits books. Unless there are further rate cuts, we expect the NIM to stabilize over the year.

On credit cost,

MFI credit cost were a significant contributor to the overall credit cost increase. However, it appears to have peaked and is expected to show a declining trend in the coming quarters. We have started cautiously stepping back into fresh disbursements given the declining trend in incremental slippages.

The credit cost in the credit card portfolio continue to plateau as we have highlighted earlier, and we should start to see it decline in the second half of the year. Credit cards fulfil a very important need for our target customers and we have launched new products this quarter, namely – Solitaire and Kotak IndiGo to cater to our customer needs.

The credit cost on the personal loan portfolio have also stabilized from Q4. Strategically, this is part of our core proposition, and we are committed to grow this book.

However, we have seen stress build-up in the retail CV segment, and we have been taking action in line for our new underwriting. We will continue to be cautious in this segment. This quarter also reflects the usual seasonal impact of the rural portfolio.

Credit cost for this quarter over last quarter was also affected by lower recoveries from the legacy corporate customer book.

A key reason that we were able to deliver this kind of growth despite the macro is due to our strategy to focus on the customer. We have made good progress as regards key customer segments with reference to product, propositions and technology.

Our combined SME book continues to grow strongly as we focus on the holistic wallet of the customer. We continue to invest in our 'fyn' platform as well as our mobile banking app. We have recently launched capability that allows a small SME customer to track both personal and business accounts in the same app, which is being highly appreciated by our customers.

We have launched a special proposition for the affluent customers, Solitaire. Solitaire offers to the affluent customers products manufactured from across the group, like investments, protection, credit card, personal loans, business loans, all on a pre-approved basis. This proposition has landed well in the marketplace and is enabling acquisition of quality customers. Our Private Banking segment continues to report healthy growth in AUMs.

Our proposition for core India - 811, came back strongly this quarter. 811 allows us to acquire customers at scale, gives us valuable granular low-cost deposits and an opportunity to cross-sell various other products. Customer migration to the new dedicated 811 app is progressing well.

We will continue to invest in proposition for selected customer segments.

Strategically, our conglomerate structure allows us to capture opportunities as new trends emerge in financial services. For example, with savers becoming investors, our asset management business continues to demonstrate very strong performance with a 25% growth in Assets Under Management. Similarly, we saw an increase in market share in both the cash market and derivative markets in Kotak Securities. With corporate tending to tap capital markets, we see a very healthy pipeline in our investment bank or KMCC.

Overall, our book value per share grew 17% on a Y-o-Y basis to Rs. 829.

It has been a busy quarter with a lot of significant macroeconomic and geopolitical turbulence. But what I feel good about is the demonstrable progress that we continue to make in the execution of our strategy.

Now, I will hand it over to Devang to take you through the specifics of this quarter.

Devang Gheewalla: Thank you, Ashok. And good evening, friends.

Before I start detailing the performance, it is important to recognize three significant areas impacting standalone Bank performance for Quarter 1, especially when we are comparing on a Y-o-Y basis.

First, NIM:

NIM for Q1 '25 was 5.02% which has reduced to 4.65% in current quarter. It is largely on account of 100 bps reduction in repo rate over last year. This would mean even at a 14% average advances growth, NII increase is restricted to 6%.

Second, other income and costs:

We had embargo for most of the last year, which impacted onboarding of new customers in 811 product and no issuance of new credit card. As we restart both of these businesses, post lifting the embargo, both income and costs related to these products' new acquisition will start flowing over the remaining year.

Last, but not the least, the credit cost:

As you are well aware, stress on MFI sector started reflecting in books from Q3 of last year, which continued in Q4 and has now peaked in Q1 of '26. Q1 '25 therefore had a negligible credit cost in MFI, which has now full impact in the current quarter.

With this backdrop, let me start with some more details on the Bank's standalone performance first:

The Bank balance sheet grew 14% Y-o-Y with net advances growing also at 14%. Share of unsecured advances reduced from 11.6% to 9.7% during the year as Bank tightened the underwriting norms, especially for unsecured business.

Total deposits grew 15% Y-o-Y with current account and fixed rate SA growing at 16% and 9% Y-o-Y, respectively. CASA ratio stood at 40.9% at 30th June. Bank continues to maintain healthy CD ratio at 86.7% at 30th June. And Bank's capital adequacy remains overall at 23%, with CET-1 itself about 21.8%.

Bank ended the quarter with a PAT of Rs. 3,282 crore, down by 7% Y-o-Y, largely due to increase in credit cost, while operating profit is up by 6% Y-o-Y. Q4 PAT of the Bank had one-off credit income items, and the PAT excluding the same was Rs. 3,466 crore, as explained in Page 8 of our Investor Presentation.

NIM for the quarter, 4.65%, Q-o-Q lower by 32 bps, largely on account of reduction in the yield in floating rate book and lower share of unsecured advances, which was partly set off by reduction in the deposit rates. Besides this, as highlighted during Q4, NIM for Q4 had a positive impact due to number of days computation. As deposits starts getting repriced, NIM is expected to stabilize during later half of the year.

Fees and services income got impacted by lower fees on credit cards and lower deal-based income.

Operating cost of the Bank at Rs. 4,775 crore grew 6% Y-o-Y, while we continue to invest in technology and technology spend for the quarter around 13.5% of the total opex. We are seeing benefits of tech spends in form of efficiency in payroll cost, however the retiral costs saw an increase due to reduction in the interest rates. This quarter also saw higher marketing spend on the restart of 811 campaign.

Gross NPA at 30th June is 1.48% with net NPA 0.34% with provision coverage ratio at 77%.

Slippages for Q1 increased to Rs. 1,812 crore versus Rs. 1,488 crore in Q4, with credit costs for current quarter at 93 bps. Overall sequential quarter increase in slippage and credit cost is mainly due to microfinance business and stress in retail commercial vehicle and seasonal impact in rural segment. We remain cautious on retail commercial vehicle segment.

Credit costs and slippages for microfinance business has peaked during the quarter. Stress in personal loans and credit cards also have stabilized. Last quarter, there were higher recoveries in secured business from 2 corporate accounts compared to current quarter. Overall, Bank's performance for quarter got impacted by margin compression and higher credit cost.

Coming to consolidated performance:

Q1 consolidated profit stood at Rs. 4,472 crore. The consolidated net worth at just under Rs. 1,65,000 crore and book value per share at Rs. 829, which grew 17% Y-o-Y. Contribution of the Bank and other lending-related entities in Q1 in consolidated profit was 74%.

As you would recall, Q4 '25 consolidated results included full-year MTM gain of Rs. 411 crore on alignment of RBI direction on valuation of investments during Q4, which for the current quarter is Rs. 204 crore in respect of subsidiary investments. In addition to the above gain, which has been taken through P&L, post-tax gain of almost Rs. 3,000 crore in respect of investment under AFS category for the Bank has been accounted directly in the net worth. So, this Rs. 3,000 crore post-tax profit has not gone through P&L. It has been accounted directly in the net worth. Cumulative post-tax gain accounted in the net worth for such investments stood at Rs. 7,244 crore.

Our consolidated customer assets are at Rs. 5,57,000 crore, which is 13% higher Y-o-Y.

AUM managed by group stands at Rs. 7,50,000 crore, which grew by 18% compared to June '24.

Our capital adequacy continued to remain healthy at the group level at 23.7% with CET-1 itself 22.7%.

ROE at consolidated level was 11.13% for Q1 and ROA at 2.03% for Q1 '26.

Coming to some specific performance of subsidiaries:

Kotak Securities recorded profit of Rs. 465 crore, up 16% Y-o-Y. This includes MTM gain of INR 86 crore. Cash market share of Kotak Securities improved to 10.1% with overall market share now at 12.8%.

Kotak AMC and Trustee Company recorded profit of Rs. 326 crore, up 86% Y-o-Y with a 24% Y-o-Y increase in the equity average AUM to Rs. 3,32,638 crore. Kotak AMC and Trustee profits includes MTM gain of Rs. 83 crore for Q1.

Kotak Life ended the quarter with a PAT of Rs. 327 crore, up 88% Y-o-Y due to higher realized gain on sale of investments. Kotak Life continues to maintain solvency ratio of 2.4x as against the regulatory requirement of 1.5x.

Kotak Prime customers' assets grew to Rs. 41,469 crore with Y-o-Y growth at 16%. PAT for Q1 for Kotak Prime was Rs. 272 crore, up 17%.

Kotak Alternate Assets recorded Q1 profit of Rs. 59 crore on back of higher distribution income from investments in AIF.

With this, I hand over to Shanti for business updates.

Shanti Ekambaram: Thank you, Devang. As Devang had mentioned, the Bank's net advances grew 14% Y-o-Y and 4% Q-o-Q, while customer assets including credit substitutes, grew by 13% Y-o-Y and 3% Q-o-Q. Deposits grew 15% Y-o-Y and 3% on a quarter-on-quarter basis.

I will start with the highlights on assets:

Just wanted to say that at a macro level, we have seen an overall slowdown on urban consumption, which has impacted certain areas. Consumer assets growth was primarily led by secured businesses.

Let me start with mortgages.

Mortgage loans comprising Home Loan and LAP grew 19% Y-o-Y at the back of a strong Q1.

In Home Loans, there is irrational and highly competitive pricing. However, we continue to focus at all home loans as it helps us build a strong long-term relationship with our customers and help increase the wallet share of our customers, particularly in the affluent segment.

The LAP market continues to be strong. We have already been a strong player given our strength in the self-employment segments. In mortgages, we updated our tech platform, which resulted in better transparency and customer experience. Quality of the mortgage book is good, thus will continue to support our growth focus on these businesses.

Business Banking:

There is a strong demand for working capital in the small business banking segment across sectors, including food processing, light engineering, goods manufacturing, renewable energy, etc. Our secured business banking comprising of small SMEs continues to see good growth at 18% Y-o-Y. Our portfolio metrics continue to perform well across the industry in various geographies. In this business, we are able to serve our customers across their financial and non-financial needs, both business as well as individual. This business is largely around our branches and will continue to be a key focus area.

In the unsecured business loan segment, we continue to grow and the book is overall stable at the portfolio level currently.

Personal loans:

Personal loans is a key segment and a key part of our retail unsecured portfolio. This includes the portfolio acquired from Standard Chartered last year. Our organic personal loan disbursement maintained momentum driven by salaried customer segment and digital acquisition.

From a risk standpoint, we have seen stabilization in the trend of flows and collection efficiencies. We continue to follow a granular growth approach, emphasizing credit quality, focusing on digital origination and processing, and optimal ticket sizes. The acquired portfolio is being managed actively and so far, has performed as envisaged.

Let me turn to credit cards:

We re-embarked on credit card issuances post embargo last year. The trajectory has been a little slower than we envisaged. However, we believe this is likely to ramp-up over the next few quarters.

During the quarter, we also implemented a one-time clean-up on blocked accounts. These are accounts, which become inactive due to either 30-day or a year for existing cards for operational reasons. None of these cards were spend active. This led to a drop in market share on cards this quarter.

During the quarter, as Ashok had said, we launched new credit cards, Solitaire and IndiGo catering to the affluent segment.

Credit Card continues to be a core pillar of our affluent customer proposition and unsecured retail strategy. We will continue to focus on the acquisition momentum in Solitaire, IndiGo and other cards, and we are well positioned to drive traction.

The delinquencies in the cards portfolio have plateaued, with flow rates stabilizing in the current quarter. We continue to strengthen our risk management and monitoring framework in cards.

Let's move to commercial assets:

Construction Equipment and Commercial Vehicles:

For Q1 FY '26, construction equipment industry sales actually de-grew by 4% Y-o-Y on account of low retail buying owing to tighter state government cash flows and early monsoon in many states. In line with this, our disbursements were also lower this quarter. We, however, continue to maintain our market position and remain a meaningful player in this industry. This is expected to pick up post monsoon and during the upcoming festive season.

For Q1 FY '26, commercial vehicle industry has, however, de-grown by 18% Q-o-Q and growth has remained flattish Y-o-Y. Goods vehicle segment de-grew by 4% Y-o-Y, majorly on account of subdued economic activity and negative demand supply equilibrium. We have been witnessing a Y-o-Y negative growth in goods segment for close to 2 years now. Passenger segment, however, continues to grow at 22% Y-o-Y.

In view of the overall economic environment, sectoral trend, the collection environment has been challenging, especially at the lower end of the retail segment. We have highlighted this in the last 2 quarters, and the flow in the retail commercial segment has been high. We have thus moderated our disbursement, especially in the retail segment.

Would however, like to mention that this is an important segment for us. Between construction equipment, commercial vehicles and the working capital to that segment, it is 10% of our portfolio and has generated good ROE for us. The overall slower macro is impacting the micro, but we are dynamically managing the stress and the collection scenario. We will continue to focus on building a business in relevant customer cohorts through calibrated risk interventions, while keeping a cautious stance on certain segments like retail commercial vehicles.

Tractor Finance:

Tractor industry witnessed 9% Y-o-Y growth in Q1 driven by favourable conditions, including good monsoons, improved agricultural yields and lower inflation. We had seen higher disbursements and have maintained our leadership position in this segment.

Q1 collection efficiency are at similar levels as compared to last year. However, June being a demand cycle month, credit cost was slightly elevated vis-a-vis the previous quarter. With the above normal monsoon forecast and expectation of a good Kharif crop, we expect improved cash flow in the second half of this year.

Microcredit:

We expect microfinance industry to see a gradual recovery in FY '26, barring any unforeseen event-based risk. The growth in the industry is expected to pick up in the second half. The credit costs are expected to remain elevated in the first half for the industry.

Our retail microcredit book de-grew by 12% Q-o-Q due to higher repayments versus disbursements. We have seen some pickup in the disbursements in June and expect the trend to continue. The early signs with respect to delinquencies are encouraging for the book originated through risk profile underwriting.

There has also been some improvement in the hard bucket collections. As we have said earlier, we think microfinance stress has peaked in this quarter and we expect it to be stable and hopefully better in the second half of the year.

The merging of BSS and Sonata is currently underway and is expected to be completed by Q2 FY '26. It will enable the Bank to create an integrated franchise with a national footprint.

Agri SME:

The Agri SME book maintained a healthy growth momentum with a Q-o-Q growth of 4%, led by continued focus on NTB sourcing. Quality of the portfolio continues to remain stable. This will continue to remain a focus area for us.

I will now take you through the highlights of the wholesale business:

This quarter, our wholesale banking assets along with credit substitutes grew 13% Y-o-Y and 6% Q-o-Q. A large part of the growth has come through our granular segment of SME and mid-markets.

This quarter, select accounts within SME portfolio were migrated to other verticals of the corporate Bank to ensure that these customers are served appropriately through the right business verticals. Due to the migration, current quarters are not strictly comparable to that of the prior period.

Advances from the rest of the wholesale Bank grew largely from working capital loans and trade assets across customer segments. Advances from GIFT City also showed a strong quarter.

Of the various customer segments, like I mentioned, we continue to scale up mid-market at a fast pace. Again, growth was accelerated due to onboarding new clients. And this quarter, the entire growth in this book has come from working capital and flow-based business. Portfolio has remained robust, and we will continue to scale this business.

Pricing continues to be a challenge in large corporates and longer-term loans. And we have seen large corporate raise money from the capital markets. Our strategy in the larger corporates is more flow-led businesses, including trade, transaction banking and deeper penetration into their business.

Let me now turn to liabilities:

As of June '25, our average deposits grew 13% Y-o-Y and 5% Q-o-Q and CASA ratio stood at 40.9%.

Our fixed rate savings grew at 9% Y-o-Y and 2% Q-o-Q. Our continued efforts to capture the Core, Mass-affluent and Affluent customers through bundled offering, omni-channel customer engagement, enhanced digital platform supported by physical resources on field have resulted in better quality customer acquisition and deepening existing relationships. This helped us to increase the value for customer, which led to an improved CASA balance.

In this quarter, we launched ‘Hausla Hai Toh Ho Jayega’ brand campaign, which commenced in February '25, which was very well received by the audience and our Spont Score jumped by 6% points to 54% in June '25, thus increasing awareness for our various customer categories.

In line with our strategic focus on deepening relationships, as Ashok had mentioned, Bank launched Kotak Solitaire, a bespoke banking programme tailored to meet the financial, travel and lifestyle aspirations of our affluent customers. The initial response has been very encouraging.

Our core proposition of savings with ActivMoney helped us grow our customer deposits. ActivMoney grew by 23% Y-o-Y during this quarter.

Post lifting of the embargo, Kotak 811 had started acquiring customers with a revamped and superior products. This has led to better quality customers in value. The new revamped 811 app and platform has seen significantly higher engagement across transactions, products, and cross-buying. Kotak 811 will be an integral part of our strategy to acquire and serve ‘core customers’ of India.

Let me now turn to Current Account.

Current account balances for the quarter grew 16% Y-o-Y.

On the consumer side, in the self-employed segment, we saw positive traction on NTBs with much better value accretion. We continue to have strengths in the self-employed space. Our lending engines on SME, Business Banking and LAP are strong enablers for retail CA.

On the wholesale side, our focus on garnering greater share of customer collections and payment flows, has resulted in strong growth in customer throughput and liability balances. Growth has come from both granular customers and deals including escrow and dividend deals.

From a strategic perspective, our liability strategy overall is focused across consumption-led, investment-led and asset-led liabilities.

Offshore custody flows, however, remained subdued this quarter, primarily due to net selling by FPI and a muted IPO market. In the domestic market, we continue to strengthen penetration into institutional customers and added customers in the insurance segment. Additionally, we are now operational on a Global Custody from GIFT branch and have started onboarding clients as a global custodian.

Term deposits:

Our term deposits grew at 20% Y-o-Y and 7% Q-o-Q.

To summarize, we will continue on liabilities to focus on our key segments for savings growth and balance between savings, ActivMoney and term deposits in a granular manner.

Overall, we have seen reasonable growth in both assets and liabilities, and we remain focused on growing both the segments based on quality acquisitions, deepening customer franchise, enhanced customer experience and cutting-edge digital platforms.

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

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

Kunal Shah: So, firstly, particularly on the asset quality side, so you indicated that the incremental slippages and credit costs coming in from MFI, retail CV as well as some seasonal stress in rural, but if you can quantify with respect to MFI given that the portfolio is maybe at least last quarter was closer to Rs. 6,700 crore, would it have meant that almost like, say, 5%, 7% of that would have been the credit cost on that?

Because ideally, when you look at it, like last time, Rs. 900 crore of credit cost also had the impact of Rs. 300 crore on increase in the provisioning coverage from 73 to 78. So, ideally, when we look at like-to-like increase seems to be quite high. So, would MFI would be such a high portion?

Ashok Vaswani: Devang?

Devang Gheewalla: So, I think you are right. MFI continues to be, and I think as we have guided last quarter also, that we expect, look at it this way. The MFI stress started building and reflecting the books from the Q3 of last year, right?

And clearly, the gross NPA, which sort of flowed during Q3, Q4, given the provisioning norms of 75%, 25%, I think all accumulated towards the Q1 hit, which has resulted in a higher credit cost for the quarter. And that's the reason it has happened. And Karnataka issue, which happened during the January and February month, which also resulted in additional stress, which sort of also reflected in this quarter results as the additional credit cost.

Kunal Shah: But if you can quantify the number of slippage, maybe amount of slippage from MFI, that would be really helpful. Maybe you generally do not do that, but given that it is quite high, particularly MFI slippages would be helpful.

Devang Gheewalla: Yes, I think you rightly said generally we do not do that. So, we would like to keep it in that way. So, but I think it is one of the key reasons besides, as we said, the CV retail. But I think the important point as Ashok and Shanti also mentioned, it is sort of splitting down and it has peaked during this quarter now. So, going forward, it will only sort of start tapering off.

Kunal Shah: Okay. And secondly, on margins, so if you can highlight in terms of maybe the repo rate cut, what is the kind of reset period and how much of the rate cuts in April and June has been passed on? And even on cost of fund side, when we look at it, it is not declining much adjusting for the SA benefit. We have cut the SA and if we look at it like say on 25%, in fact, that is higher than the overall cost of funds declined. So, not really sure in terms of we have not seen any cost of deposit benefit getting reflected in the 1st Quarter even except for SA.

Devang Gheewalla: Yes. So, I think you are right. So, if you look at the average SA cost, which we have mentioned in the EU, which is around for Q1, is about 3.25%. And as you know, now we have aligned the fixed SA rate finally to 2.5%. So, clearly, the SA cut, which we have done over a period of various months and more latest one in the month of June will obviously flow through in the Q2. So, clearly, directionally, the SA portfolio, we will be paying about 2.5% interest, which the average cost of that in Q1 was about 3.25%. So, you can easily see 0.50 is reduction coming and flowing through in the Q2. That is one part. Second part, what you are saying is right in terms of the repo rate benefit, which transmits to the customer, it happens on the interest reset date which happens on a fortnightly basis as the loans get repriced, and that flows over time. So, I think what we are saying basically that while the hit on the repo on the earning asset is upfront, I think with some of these cost reductions, as well as the CRR cut, which will also start kicking in from September, it will effectively even out over 3 to 4 quarters, of course, assuming no further repo rate cut, right?

Kunal Shah: So, 50 basis points would be entirely left out to be passed on, that will reflect in 2Q?

Devang Gheewalla: As I said, it's difficult to say because it has happened over a different period of time; it will also depend upon the asset repricing. But all I am saying is that, again, also the deposit also repricing, but over next 3 to 4 quarters, we will see the effect of earning loss getting offsetted by the cost of fund reduction. That's what I am saying.

Kunal Shah: Okay. Will take 3-4 quarters. Okay. Thanks.

Devang Gheewalla: Thank you.

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

Mahrukh Adajania: Hi. So, just a couple of questions. Firstly, that obvious reasons unsecured has grown slower, I mean, much slower than secured and mix is down to less than 10%, a little less, almost 10%. So, do we still aspire to grow unsecured in the mid-teens, or will we take a breather here? That's my first question. And then I have a couple of other questions.

Ashok Vaswani: Sure. Look, aspirationally, we would like our retail unsecured book to be at 15%, always in line with our guidance. In that three kind of elements, one is MFI, which we have talked about. And we have talked about how we are stepping back and starting disbursements. Currently, our disbursements level is more or less equal to the run-offs. But over a period of time, as the credit thing gets better, we will start building our MFI book again. Personal loan is again a very, very important product for us which our customers need and we will continue to grow that book and we are doing a lot of work there to really make, to step up the pace of personal loans. So, both MFI and personal loans will be more immediate. Card is one area where we have kind of getting our engine started, launching the new products, trying to get the right product into the right customer's hand. And card, as you know, it takes a bit of time, but it's clearly an area of high importance to us and we will go after it. This quarter, like we said, we launched Solitaire and the IndiGo card. There are other card product launches that are coming up and cards is one area that we will grow quite aggressively going forward. So, our entire focus of trying to climb up and get a higher percentage of our assets and retail unsecured is very much on the cards and we will do it in a sensible kind of fashion.

Mahrukh Adajania: Okay. And just in terms of margins, obviously there were multiple things that happened which took down margins this quarter. But is this the bottom or the earlier rate cut may not have been fully passed on and therefore there's some more catch up to do on yield. So, how do we view margins? Is this an up-fronted impact and therefore it is the bottom or which quarter do you see it bottom out?

Devang Gheewalla: So, I think, Mahrukh, if you see the latest repo cut happened in June. So, clearly the full effect of that 50 bps will reflect in Q2. So, therefore Q2, it is likely to bottom out before the repricing and the CRR benefits start accruing from Q3 and Q4. So, I think the other thing I just wanted to also highlight is that while that is happening on our organic growth on current account and saving account, we have been having growth. So, that will also add to some improvement happening going forward. But I think to answer your question, the repo rate effect on the advances will be felt during the Q2 quarter just because the 50-bps cut happened in June itself. So, it's only for 15 days you have taken the hit in Q1, right? The full quarter effect will come and that's of course hold good for all the banks.

Ashok Vaswani: And the deposit repricing will happen as per maturity.

Devang Gheewalla: Absolutely.

Ashok Vaswani: And so we expect that to take somewhere between 3 to 4 quarters.

Mahrukh Adajania: 3 to 4 quarters. Okay. But the repo repricing policy is what, it's T+1,30, 90. I mean, in how many months does the entire repo book reprice following a rate cut?

Devang Gheewalla: Broadly 3 months.

Mahrukh Adajania: Okay. Perfect. Thank you. Thanks a lot.

Moderator: Thank you. Our next question comes from the line of Chintan from Autonomous. Please go ahead.

Chintan: Hi, thank you for taking my question. Can I just come back on MFI? You said that you want unsecured to be 15% of the mix, but you're stepping away from MFI for the moment. When you think about that 15%, how much of that do you think should be MFI roughly?

Ashok Vaswani: I think we look at it on a total kind of basis, right? We are not going to get to 15% overnight, but it's kind of building it up. Look, MFI as an overall book, as an overall of total assets will not be more than 3% or 4% of our total asset book, right? But I think the more important thing is to say that we would not like our retail unsecured assets to be more than 15%. Currently, we are at a low of 9.7%. So, there is a long road ahead of us.

Chintan: Okay, thank you. And then the second question I had was on the, and again, sorry to come back on this, but perhaps, Devang, if you can help us understand the moving parts this quarter. So, the day count impact will probably be 7-8 basis points. Then you have adverse loan mix shift effect, you have an adverse funding makeshift effect because of the CASA deterioration. Is there anything else that we are missing out here that would explain the quarter-on-quarter decline in NIMs outside of these factors?

Devang Gheewalla: Sure. So, I think there are three primary reasons, as I explained in my opening remark. First, of course, is the repo rate cut and the cost of fund impact. Second, I think the mix of the unsecured which reduced in this quarter compared to Q4. And the third, as I explained, even in the last call, the way our system calculates the interest on the retail book and the number of days count. So, typically, Q4 has a benefit because of that and every year, Q1 has a reversal of that. So, effectively, these are the three key reasons which has impacted the movement of the NIMs.

Chintan: Okay. So, no other one off that might explain any or something, that is unexpected?

Devang Gheewalla: No.

Chintan: And if I may, a very quick one, on the AMC AUM, you highlight 18% growth. How much of that is net new money?

Shanti Ekambaram: Can you just repeat that question, please?

Chintan: So, of the 18% growth that you have seen in AMC, asset under management, how much of that would be net new money, as in money coming in from clients as opposed to market price increase or asset price increase?

Nilesh Shah: So, our total assets under management has grown about 8% quarter-on-quarter, of which new flows, thanks to the liquidity coming into banking system, was disproportionately higher on the debt side. Mark-to-market was less, and client flows was higher. On the equity market, again, markets have been fairly stable. So, the flow from clients will be almost equal to the mark-to-market gain.

Chintan: Thank you.

Ashok Vaswani: By the way, that was Nilesh Shah, the CEO of our Asset Management Business.

Moderator: Thank you. Our next question comes from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: Hi, good evening, everyone. I have two questions. First is on the cost of funds. So, that has declined by almost 8-9 basis points. Now, if I look at the number of measures, you've cut savings deposit rates, ActivMoney deposit rates, and so on. I was looking at cost of SA. Cost of SA itself has come down by 50 basis points Q-o-Q. Now, that itself would explain, say, 10 basis points of funding cost decline. So, is it fair to assume that we have not seen much repricing on the term deposit portfolio or the active money portfolio?

Devang Gheewalla: You are right, Sumeet. The term deposit portfolio, as you know, our average tenure for the term deposit is between 9 months to 12 months. So, most of the term deposit repricing will happen over that period of time. As far as fixed SA is concerned, the price reduction, today we have a 2.91% interest rate, which obviously will move down to 2.5 as we grow, as we already sort of declared the price. I think if you have also seen in the breakup, our reliance on the MIBOR related SA, which is a high cost SA has also gone down during the quarter. This will also obviously help us in reducing the cost of fund further.

Sumeet Kariwala: Okay. And the second question is on asset quality. So, if I look at MFI, credit cards, personal loans and retail commercial vehicles, we have been highlighting that stress for last 2-3 quarters. I just wanted to recheck on segments out of this, out of those segments. Is there any deterioration that you're seeing in the early buckets, particularly in the business banking and SME portfolio, please?

Shanti Ekambaram: As of now, Sumeet, we are not seeing anything in SME and business banking in this quarter as well. And as I mentioned earlier, personal loans, we have stabilized, both flows and collections, cards have plateaued. MFI, we believe, has peaked this quarter. Retail commercial vehicle, we think it will, based on what we are seeing, maybe continue over the next one odd quarter. We will watch that if we are managing that dynamically. But otherwise, as of now in our SME and business banking, we are not seeing any stress as of now, but we are monitoring it very carefully.

Devang Gheewalla: Just to add, Sumeet, in our case, both SME and MSME, both the portfolios are fully secured. So, to that extent, we have that.

Sumeet Kariwala: Thanks a lot, Devang. Thanks, Shanti. That was from me.

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

Piran Engineer: Yes. Hi, team. Thanks for taking my question and congrats on the quarter. Just firstly on SA, I wanted to understand sort of movement. So, our opening balance was about 1.3 lakh crore and close at 1.28. But the average is more like 1.24. So, was it that we had some quarter end flows in the March quarter which impacted it or did we see some outflows when we cut SA rates during the quarter? How do I just reconcile this phenomenally?

Devang Gheewalla: So, I think, Piran, first of all, we have not seen till now, impact due to the interest rate cut on the SA balances. What has changed clearly is the breakup between the floating and fixed rate SA. So, if you refer to the slide 10 of our EU, which effectively will show you that the saving account average balances has improved by from 1.22 to 1.24. And also on the left side, if you see the EOP balances which have been broken down between floating and fixed rate SA.

Shanti Ekambaram: So, let me just add to that. Actually, we have been bringing down our MIBOR book. Our MIBOR book is down. If you look at it, Y-O-Y from 18,730 to 13,288, while our fixed rates SA, which is currently at 2.5, but has gone up from 105 to 114. So, the mix of savings is moving to better quality customer granular savings, which is the fixed rate SA and MIBOR we have been reducing it. We always have shown them differently because there are different customer segments and different strategies. So, it is the granular fixed rate SA that's very critical.

Devang Gheewalla: And the 3.32 cost, what you saw below is actually both put together. It is MIBOR as well as the non-MIBOR SA.

Piran Engineer: Sorry. Maybe I miscommunicated. I am not referring to the mix or the cost of SA. I am just saying that the total SA balance as of 31st March was Rs. 1.32 lakh crore. And as of 30th June was Rs. 1.28 lakh crore. One would broadly assume the average to be 130. But the quarterly average is more like 124. Maybe I am overanalysing, but just wanted to understand if there was any…?

Devang Gheewalla: Piran, we can sit across and discuss this. Thanks a lot.

Ashok Vaswani: See, look at page 10. So, if you see page 10, right, that kind of explains it, right? It's gone from March, it was 111. That's the fixed rate SA going to 114. Correct?

Shanti Ekambaram: The floating rate SA has come down.

Ashok Vaswani: The floating rate SA has come down.

Shanti Ekambaram: If you add both, it will be down, but there's a big difference between the two.

Devang Gheewalla: That's correct.

Shanti Ekambaram: You have to look at it separately.

Piran Engineer: Okay. I will take it offline with Devang. Secondly, just how do we think about the quality of the book that has been underwritten in the last 12 months to 18 months across segments. So, we can talk about CVs, unsecured lending, credit cards obviously has not happened much, MFI, etc. Is the new book showing significantly better outcomes than let's call it legacy book?

Ashok Vaswani: Look, let's just go into the areas where we are seeing stress and what is happening there, right? So, currently, the stress is in MFI. And in MFI, clearly the newer book, say for the last, call it three quarters, or maybe even four quarters, definitely the newer book is much, much, much better than how the old book is kind of performing. Cards, as you know, we have not been growing. Actually, we have been de-growing. So, on a percentage basis, you may see a lift in losses. But actually, the portfolio is getting better, because all the bad stuff is kind of getting washed through. PL, definitely we are seeing improvements and the new book is definitely better. So, no concerns there. And in CV, we had actually spotted this trend about two quarters ago. If you remember, Shanti had mentioned this over the last two quarters, that we are seeing some stress in retail CV. So, it's not in the entire CV market, it's only in small retail CV that we are seeing stress. And over the last two quarters, we have tightened our underwriting for that segment. And that the new origination from that segment now has come to a real fraction of what we were doing earlier. So, generally speaking, we kind of stay, we kind of are like watching these books like a hawk, particularly since we are worried about the trend in the economy and I covered that in my opening statement. Look, the RBI says 6.5% GDP growth, which is a slip from last year. But we are just seeing where the implications are, and therefore monitor these books very carefully.

Piran Engineer: Got it. And just my last question is on gold loans. So, after COVID, we had been expanding branches quite significantly. But last year, we cut about 20% of our gold loan branches. So, anything to read into that? Have we merged branches or what's going on there?

Ashok Vaswani: So, I will ask Manish Kothari, who Heads up our Commercial Banking to deal with that.

Manish Kothari: So, gold loans, we continue to, the numbers I don't know where one is seeing. The gold loan branches which we would have reduced would have been more coming out of possibly towns where we were not really seeing much of the growth. But otherwise, actually the book has grown, despite the reduction in the branches, the book has grown by 30% plus. It's a small book, but it has grown 30% plus over Y-O-Y basis.

Ashok Vaswani: Yes, we have identified 488 branches, where we are concentrating on gold loan, building the capability, both operationally as well in tech in those 488 branches. And as Manish correctly pointed out, albeit of a small base, Y-O-Y growth in gold loans is 30%.

Piran Engineer: Okay. That answers my question. Thank you and wish you all the best.

Ashok Vaswani: Thank you.

Moderator: Thank you. Our next question comes from the line of Harsh Modi from JP Morgan. Please go ahead.

Harsh Modi: Yes, thanks. My question is just on asset quality. To what extent does it appear concerted slowdown across multiple places, as well as some degree of unwinding of the microfinance book? How much more of stress do you think it shows up? Does it show up only in second quarter? Or you think it continues over second half of the year? Thank you.

Ashok Vaswani: So, Harsh, like we said, look, a lot of microfinance has been actually quite painful. Started Q3, Q4, we believe it's peaked in Q1. We believe it will start coming down. And with both credit cards, kind of plateauing and PL being stable, some uptick in commercial loans, but the uptick in commercial vehicles, I doubt very much is going to be as much as the drop off in microfinance. So, what we are looking at is, if the microfinance book actually kind of drops off as much as we hope, then we should be in a better shape. But these are, as you know, Harsh, these things, you have to monitor them virtually on a daily basis, we are all over it. But we feel pretty confident that microfinance will peak in Q1. Look, the microfinance book has also come down quite dramatically and therefore, our confidence that lost rates will fall off is relatively high. And so I am hoping that same time next quarter, we have a better picture to report.

Harsh Modi: Thanks. I just wanted to dig in a bit more on that. Once the guy knows that the bank is kind of in a runoff mode in microfinance, does the willingness to pay back goes for a toss and when do you end up seeing a much higher probability of loss? And also on MSME, one of the smaller or for example large players, said that economic growth is a univariate variant which has a significant impact on ability and willingness to service debt in MSME segment, especially for the smaller guys. Is that something, you said you're not seeing a lot there. I think Shanti said that. But is there something there where there's any early warning signs? Thank you.

Ashok Vaswani: So, Harsh, first of all, in the microfinance book, look, what we have done is that we have replaced the joint liability group model with individual underwriting risk-based models. And therefore, the way we are stepping back or the way we are, where we are dispersing and where we are not dispersing has a lot to do with what the model says are the propensity for repayment. And we have back-tested these models, and the models seem to indicate that that works into a very acceptable level of risk and loss rates. So, that gives us comfort that going forward, the model for microfinance has changed from a joint liability model to individual risk-based underwriting, I think we can get into a much better place. On SME, particularly the smaller SME, we are monitoring that portfolio very, very carefully, because obviously, we want to look to see whether there are any signs of a contagion. Monitoring very carefully, there are a couple of things that kind of help. One is usually these customers are solely banked and therefore we get the holistic view of the customer. And two, not a 100%, but for the most part, it is secured. Right? But having said that, given where the economy is, we are definitely looking at it and monitoring it very carefully.

Harsh Modi: Right. Thanks for that. Just so I understand, the probability of default may go up in SME, but loss-driven default may not, but the probability probably is moving up?

Ashok Vaswani: As of now, I am not stressed about the SME piece, but of course, we are monitoring it.

Harsh Modi: Thank you.

Moderator: Thank you. Our next question comes from the line of Jay from ICICI Securities. Please go ahead.

Jay: Yes. Hi, sir. Good evening. It's a question on your OPEX. So, this quarter, the growth has been 6% versus loan growth of 14%. And I think you mentioned in the opening remarks that as credit card and PL book keeps, I mean, gains momentum, there may be some rise in the OPEX there. But for full-year basis, do you think that OPEX should be broadly similar to loan growth or you believe that it can trail loan growth significantly?

Devang Gheewalla: So, I also mentioned that while we continue to spend on IT, which obviously will bring efficiency, and we are already seeing some green shoots there with the payroll cost growing at much lower pace than earlier. So, I think it's a combination of the mix of the spend has changed towards more IT and less towards the payroll part. And I think the other part which will grow is related to the acquisition cost as we sort of start onboarding higher 811 customers and issuing the new and new credit cards, right? So, to that extent it will be a variable cost, but also those new acquisitions will bring the income also, which is currently not reflected in the other income line. So, to that extent, I think I would like to see the acquisition cost increase in line with the income also for the new onboarding of customers. And we are clearly seeing efficiency of the IT spend now coming gradually into the cost.

Moderator: Thank you. Our next question comes from the line of Zhixuan Gao from Schonfeld. Please go ahead.

Zhixuan Gao: Thank you so much for the opportunity. Just one question on the CV part that you're highlighting. On retail CV asset quality, do you mind sharing with us more details? Is there any sub-segments, either new versus used, or any sub-segments of retail CV that's having more stress? Because we have a CV player that reported yesterday and their commentary seems to be, things are pretty fine on the ground. It's just seasonality. So, I just want to understand, is there any sub-segment that's causing this for you guys?

Devang Gheewalla: Between CV, which is the segment, which is retail sub-segment, that is it.

Ashok Vaswani: So, what we are really saying is that within CVs, it's the retail CV, not really the transport operators and stuff like that, it's the retail CVs where we are saying.

Shanti Ekambaram: In the goods segment, retail CV is placed. In the goods, retail. Goods and retail.

Ashok Vaswani: Does that make sense?

Zhixuan Gao: Okay. Goods and retail CV.

Shanti Ekambaram: It's a retail commercial vehicle and in the goods segment, which is the goods. Transportation. Movement of goods.

Zhixuan Gao: Got it. Thank you. And then overall credit cost, are we expecting this to be the peak credit cost or how should we think about the next couple of quarters?

Ashok Vaswani: Like we said, we expect MFI to peak. We expect MFI to drop off. Cards, like we said, have plateaued. So, I don't think there should be too much change to cards. PL is also stabilized. So, that should be more or less the same. We will see some stress in commercial vehicles, like we said. And that's what the outlook looks like. And then, of course, the wild card in all of this is corporate recoveries as to how much you can get in a particular quarter, which is not, that's not the annuity piece, right? That provides to some extent the swing factor.

Zhixuan Gao: Got it. Thank you so much.

Ashok Vaswani: Thanks.

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

Ashok Vaswani: As always, thank you so much for joining us on a Saturday evening. Thanks again and we will see you next quarter. Thank you.

Devang Gheewalla: Thank you.

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