Management Discussion

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Thank you, Sagar. Thank you so much and good afternoon, everyone and thank you for joining us this afternoon. I will, as usual, begin with some opening remarks before handing over to Devang, who will take you through the financial performance. Anup and Paritosh will cover the retail and institutional businesses respectively. Jaideep will provide an update on our subsidiary performance.

For the quarter, the group delivered INR5,480 crores in profit after tax, which is a growth of 23% on a year-on-year basis. Let me first talk about the bank and then the subsidiaries. The bank delivered profit after tax of INR4,123 crores, up 26% year-on-year. I've always said we seek responsible and profitable growth and not just growth for growth's sake. In the current environment, we have prioritized stability, profitability and efficiency without any compromise to our overarching strategy around the four focus customer segments. We've calibrated growth in the low ROE businesses and businesses potentially affected by the geopolitical crisis. At the same time, we have taken advantage of better spreads in the corporate segment and volatility in the treasury markets.

Our focus on the four customer segments, independent product businesses and driving automation and digitization continues to drive strong results. Customer asset growth of 16% on a year-on-year basis was driven primarily by our focus segments, SME and institutional banking. We continue to grow in absolute terms in the unsecured retail segment, with encouraging sequential flow growth now also seen in credit cards and MFI. Total average deposits grew by 14% on a year-on-year basis. Within this, our CA and fixed rate SA book grew by 15% and 16% on a YoY basis respectively. This is despite CA growth being affected by moderations in capital market deals. We continue to focus on increasing the granularity and stability of our deposit franchise and this is reflected in our cost of funds, which went up QoQ by only 1 basis point. The discipline on quality of both deposits and advances helped us deliver steady NIMs at 4.53%.

I had mentioned earlier that driving efficiencies through automation and digitization would be a key priority for this year. In Q1, our costs grew by 8% on a year-on-year basis, further reducing cost to total assets from 2.83% to 2.66% year-on-year. We will continue to drive this effort on an ongoing basis. Our operating profits thus grew by 10% on a year-on-year basis. Credit cost remained well under control at 46 basis points.

As you know, we entered into a definitive agreement to acquire Deutsche Bank's retail banking, private banking and wealth management businesses in India for INR281 crores. The businesses comprise of 150,000 customers, with INR29,000 crores of advances, INR16,000 crores in deposits and INR10,500 crores of wealth AUM. The transaction is a strong strategic fit with Kotak's affluent and SME franchise and is expected to be ROE accretive and creates incremental cross-sell opportunities. This is very much in line with our inorganic philosophy. While the transaction is expected to close in September '27, this will help us deliver above-system growth rates. These inorganic opportunities continue to form an integral part of our strategy.

Coming to the subsidiaries. Profit after tax grew by 20% year on year, with standout performances from Kotak AMC, Kotak Prime, Kotak Securities and our alternative asset businesses. Kotak Life also had a very good quarter. Geopolitical tensions impacted the capital market businesses, particularly investment banking. However, we have a very robust pipeline going forward. With this, the subsidiaries contributed to 33% of consolidated profit after tax. The consolidated book value per share increased by 14% YoY. The operating environment remains extremely dynamic and there are

several significant factors which will play out, such as FCNR(B) and ECLGS. This requires us to be extremely nimble and agile while maintaining our focus on the relentless execution of our strategy. With that, let me hand it over to Devang to take you through the financials in greater detail.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Thank you, Ashok, and good afternoon, everyone. Let me take you through the key highlights of bank's standalone and consolidated performance for Q1 FY '27. Let me start with the standalone bank performance. Our end-of-period customer asset, including the credit substitutes, grew 16% YoY and 5% QoQ basis. Q1 growth was largely driven by corporate and SME segment, and in retail unsecured business segment by MFI and credit card businesses. Our total deposits grew 12% YoY on EOP basis, while average deposits grew 14% YoY and 4% QoQ. Within which, the average current account balances grew 15% YoY, average fixed-rate saving account balance grew 16% YoY and average term deposit grew 14% YoY.

Bank delivered a profit before tax of INR5,463 crores, which grew at 25% YoY, with operating profit growth of 10% of INR6,131 crores. The key contributors to profitability were NII growth of 9%, fee income growth of 11%, consistent improvement in cost-to-asset, which reduced from 2.83% to 2.66%, reduction in credit cost from 93 bps in quarter one last year to 46 bps in this quarter. All of the above resulted in increase in return on asset by 20 bps, from 1.94% to 2.14%. On a sequential basis, PBT grew 2% while operating profit increased by 5%. Net interest margin for the quarter 4.53%, remained consistent with quarter three FY '26 and adjusted Q4 margin.

As you would recall, we had reported 4.67% NIM margin for Q4, but as it happens at every quarter 4, because of the anomaly in the number of days, the adjusted margin for Q4 was 4.54% and therefore the margin for the quarter one and the last three quarters, that means Q3, Q4 and Q1, remains at 4.53% to 4.54%. Cost of fund was stable at 4.46%, similar to the previous quarter. Non-interest income for Q1 included dividend from subsidiaries and FX higher gains. In comparison as you know Q4 includes higher income from distribution of insurance products. Trading gain on fixed income book, net of OIS and FRA, accounted during Q4 FY '26, got reversed in Q1 FY '27 with market movement. The staff cost increase in this quarter reflects impact of annual salary increment and reversal of Q4 benefit in retirement cost arising from movement in the discount rates.

Coming to the operating cost, bank continues to invest in technology, which continues to be around 13% of our total cost. Q4 operating cost included elevated marketing and brand awareness spending. Coming to the asset quality, the gross NPA reduced to 1.18% vis-a-vis 1.2% on a sequential quarter basis. Net NPA of 0.27% as against 0.25% and the provision coverage ratio continued to remain over 78%. Credit cost for the quarter stood at 46 bps, compared to 39 bps in quarter four. Prepayments increased to INR1,321 crores from INR1,018 crores in the previous quarter. While the unsecured portfolio continues to show improvement, the increase in credit cost and slippages was largely driven by commercial vehicle and tractor finance portfolio, reflecting seasonal trends on expected lines.

As of June 30, the bank's net worth stood at INR140,924 crores, which includes INR9,701 crores of mark-to-market gains on strategic investments. Of this, INR1,592 crores gain accrued during Q1 itself. These gains, as you know, have been recognized directly in the AFS reserve and have not been routed through the profit and loss account. ROE for the bank is 11.98% for the quarter, with CET of 22.4%. If we were to adjust the mark-to-market gain on the equity investment, which I just said, the ROE actually improves to 12.8%. Overall capital adequacy ratio of the bank is 22.8%. To sum up, the quarter performance reflects stable margin, continuing improvement in the operating

efficiency and normalization of credit cost.

Moving to the consolidated businesses, customer assets stood at INR645,812 crores, growing 16% YoY. The group investment in AUM increased to INR805,531 crores, an increase of 8% on a YoY basis. The consolidated net worth stood at INR188,214 crores at 30 June, while the book value per share increased to INR189 with a six-year CAGR of 17%. Consolidated PAT is at INR5,480 crores, which grew at 23% YoY and 5% on a QoQ basis. This is, of course, excluding the gains on Infina divestment, which we had. Q4 FY '26 subsidiaries performance was impacted by adverse market movements, which were largely reversed during the quarter one FY '27. Jaideep, of course, will take you through the performance of our key subsidiaries in greater detail. With that, I hand over to Anup to discuss the highlights of our retail businesses.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Thank you, Devang. I will take you through the retail business commentary. Our strategy remains anchored on two focused customer segments: high-net-worth individual and Core India. The HNI franchise comprises Private Banking and Solitaire. It is a relationship-led business focused on deepening customer experience relationship and increasing wallet share. Solitaire's premium proposition continues to deliver strong outcomes. As of 31 March 2026, the bank managed a combined relationship value of approximately INR12.78 lakh crores, contributed by 78,200 families. Kotak 811, the Core India strategy, continues to be a scalable, digital-first platform for customer acquisition, lifecycle engagement across branch sales and our corporate salary channels. Engagement has strengthened through differentiated offerings such as Metal Debit Card, Super X and 4-in-1 bundle propositions. Kotak 811, the Core India strategy, delivered a 32% YoY growth in savings balances, now contribute to 12.7% of bank's total savings book. This two-segment strategy is reflected in the continued momentum of our liability franchise. For quarter ending June 2026, CASA grew 13% YoY, average total deposits grew 13.6% YoY.

Moving on to the asset side, mortgage, home loans and loan against property remain central to building long-term relationships, particularly among affluent and self-employed customers while enhancing value through associated deposit buildup. Supported by improved distribution, faster turnaround times and enhanced digital journey, the mortgage portfolio grew at 15% YoY. Gold loan, which remains a small business but is a significant important focus area for us, has continued to gain traction, supported by distribution buildup at the branches and significant process improvements. The bank's unsecured retail lending portfolio, comprising personal loan, business loan, credit card and micro credit, continues to drive engagement portfolio yields while maintaining disciplined risk management. The unsecured retail portfolio grew INR707 crores in absolute terms this quarter.

Personal loan, business loan and consumer durable grew 5%. It still has some impact of rundown of the Standard Chartered portfolio, otherwise the growth has started in double digits. Excluding this portfolio, PL growth remained double digit as I spoke about. The credit cost has come down significantly in our unsecured. Traction is expected to improve, supported by distribution initiative, offerings such as PL overdraft to our Solitaire and HNI customers, in addition to personal term loans. The credit card portfolio has been strategically restacked around right product to right customers philosophy, while Solitaire continues to scale among affluent HNI and Private Banking. Air+, Cashback+ are gaining traction in emerging and mass market segments. Rising incremental acquisition and healthy spend trend supported by 4% quarter-on-quarter growth on spends versus flat to negative trends seen after the embargoes.

Retail micro credit grew 10% YoY and 5% QoQ, following 8% QoQ growth in March 2026, with credit cost declining due to risk-based underwriting within our appetite and coverage under full CGTMSE scheme. This scheme is important in setting off future risk cost. In tractor finance, which we run like a non-bank model in a way, the bank retained its position as the second largest tractor finance in India with 11% YoY portfolio growth. However, we remain watchful of any adverse weather condition impacted by El Nino. Our digital strategy is built on two focused app platforms: Kotak Mobile Banking for affluent NRI and business and Kotak 811 for Core India's everyday banking needs. This dual app strategy enables tailored experience, stronger customer relevance and deeper digital engagement across segments. Investments in technology across retail business are delivering lower acquisition servicing cost, reduced branch congestion and improved service level, strengthening the scalable growth and improved customer experience.

I would now hand it over to Paritosh to take you through the wholesale and the SME banking.

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
Thank you, Anup. I will now take you through the performance of the institutional businesses. Our SME and institutional propositions continue to drive growth while leveraging the group's diversified financial services platform. The SME franchise, which accounted for 24% of the bank's advances, strengthens primary banking relationships and delivers diversified balance sheet growth. The institutional business complements this with a capital-efficient fee-based model that generates higher ROE.

During the quarter, fee income from corporate bank grew 27% YoY and contributed 20% of the bank's total fee income. Cross-selling investment banking and institutional brokerages products added about 85 basis points to corporate banking ROE during this quarter. Corporate banking delivered healthy growth this quarter, with the loan book growing 15.5% YoY and 4.8% quarter-on-quarter. Credit substitutes too grew at a strong pace of 27.2% YoY and 37.6% quarter-on-quarter. We continue to focus on granular expansion.

Mid-market business continued its momentum this quarter with strong customer acquisitions. Growth was driven primarily by granular working capital lending while maintaining prudent risk selection. In large corporates, we continue to focus on profitability through higher cross-sell, flow-based business, and deeper transaction banking penetration. Our trade book grew strongly driven by domestic trade, supply chain finance, and continued digitization. GIFT City continued to scale both trade and non-trade loans and grew strongly this quarter. Asset quality across customer segments continues to be resilient.

Now let me move to beyond balance sheet. In the institutional business, we continue to strengthen fee-led businesses. Fee lines, including FX, grew strongly this quarter while debt capital market maintained a strong momentum with a healthy pipeline. Our collections and payment franchise continue to expand through technology investments and deeper client engagement.

Capital markets businesses, including investment banking, institutional equities and custody, were relatively muted during this quarter due to FII outflows and geopolitical uncertainty. However, we continue to maintain leadership positions across these businesses and have a robust pipeline. Through our SME franchise, we continue to build a relationship-led business model. The franchise delivered healthy growth during the quarter, with advances growing at 20.5% YoY and 2.6% quarter-on-quarter to about INR1.26 lakh crores. Growth was driven by healthy working capital demand, new customer acquisitions and deeper wallet share with existing customers. Asset quality

remained resilient through disciplined underwriting. The bank has also been an active participant in the government's ECLGS program, supporting MSME and businesses by extending close to INR3,000 crores of ECLGS credit till 30 June 2026.

Turning to the commercial vehicle and construction equipment business. The business is managed as an independent product business within the bank and accounts for about 9% of advances, with a portfolio of approximately INR45,000 crores. In the commercial vehicle space, the first quarter is seasonally weaker than the preceding quarter. We maintained a cautious stance amid heightened geopolitical uncertainty while continuing our disciplined risk selection. In construction equipment, industry conditions remained soft, though actively improved towards the later part of the quarter. Recovery will depend on improved raw material availability and a pickup in government spending. Finally, we continue to invest in enhancing our digital capabilities. Our fyn platform continues to witness strong traction, with active users increasing 37% YoY. We further strengthened our digital merchant and collection capabilities while digital loan disbursements and the proportion of customers servicing requests on a DIY journey continue to increase substantially.

I'll now hand over to Jaideep to take us through the subsidiary performance.

Jaideep Hansraj - Whole-Time Director, Kotak Mahindra Bank Limited
Thank you, Paritosh. Good afternoon, everyone. Let me talk about our subsidiaries now. In Q1 FY '27, our subsidiaries reported profit of INR2,022 crores, up 20% YoY, contributing to 33% of our consolidated profit. This reflects strength of our diversified and fully integrated financial conglomerate structure. With 100% ownership in subsidiaries, the group retains the entire profit and embedded value. The unique strength of this model lies in Kotak's ability to both manufacture and distribute every major financial product within a single platform. The PAT growth for the quarter was partially aided by reversal of the MTF loss recognized towards the end of March '26 on capital market-linked equity investments and movement in yields during the quarter.

I'll start with the lending subsidiary Kotak Prime. Kotak Prime's PAT for Q1 27 stood at INR354 crores, up 30% YoY. The business continues to benefit from healthy growth of 11% in customer assets through INR45,960 crores while maintaining a disciplined approach towards portfolio quality. On the capital market side, Kotak Securities delivered a strong quarter with PAT of INR533 crores, up 14% YoY. The cash market share improved to 10.4% from 9.8% sequentially, while derivatives market share increased to 15.9% from 15.3%, with the overall market share rising to 13.8%. Interest income also benefited from growth in the MTF book with market share of about 14%. Q1 FY '27 was relatively muted for our institutional capital market businesses, that is, Kotak Institutional Equities and the investment banking business KMCC, due to subdued primary market activity. However, we continue to maintain our leadership position in these businesses.

On the asset management business, the Kotak AMC and Trustee Company's PAT for Q1 '27 stood at INR399 crores, up 22% YoY. This was on the back of average AUM growth of 16% YoY, which stood at INR609,499 crores. The scale of this business continues to translate into strong cost efficiency and operating leverage, supporting healthy margins and steady profitability through the cycle. On the alternate asset business, Kotak Alternate Assets continues to be one of the leading domestic alternate asset managers in India. Q1 FY '27 PAT stood at INR126 crores, up 112% YoY, largely driven by gains from exits during the quarter.

On the insurance side, Kotak Life Insurance shareholders' PAT stood at INR336 crores, up 3% YoY. The gross written premium grew 28% YoY, reflecting good momentum in the franchise. The retail

sum assured grew 57% YoY, reinforcing our focus on protection-led growth and long-term value creation. I'll now request the operator to begin the Q&A session.

Questions & Answers

Operator
Thank you very much. We will now begin with the question-and-answer session. [Operator Instructions] Your first question comes from the line of Piran Engineer with CLSA. Please go ahead.

Piran Engineer - Analyst, CLSA Limited
Yeah. Hi, team. Congrats on the quarter and thanks for taking my question. Just firstly, can you talk a bit about trends in the CV segment, more importantly in terms of collections and what are you waiting for in this space to start to kickstart growth again?

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
Yeah, hi. Hi. This is Paritosh. See, the CV segment, we have been consistently seeing improvement in our collections. As I'd mentioned during my commentary that Q1 is a little slower compared to Q4, so the growth has been muted. But we expect that with the right selection between different segments, we should look at it going forward.

Piran Engineer - Analyst, CLSA Limited
Can we hit like 10%, 12% growth this year at least in this segment YoY?

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
We don't really give forward guidance on the growth, but I would say we will maintain the market share.

Piran Engineer - Analyst, CLSA Limited
Understood. And just, sorry, if I may follow up on your point, when you're saying you see improvement in collections, are you is it at a level where it used to be 1.5 years back, or is it still above steady state levels? As in, are slippages still above steady state levels?

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
I think, I would say, our slippages are reducing and we have been maintaining the pace of improvement quarter on quarter.

Piran Engineer - Analyst, CLSA Limited
Understood. Okay. Thanks. Secondly, on personal loans, again, here the book was flattish quarter on quarter. And this is when we called out two quarters back that personal loans is now fine. So how do we really read into this?

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Hi, Piran. This is Anup here. When you look at the personal loan that comprises of personal loan, unsecured business loan and consumer durable, all in together. On the personal loan side, last year we had a Standard Chartered portfolio bought in, so that is of course is running down faster. If you net that, the growth on the organic personal loan growth is quite strong now. That is the first. On the unsecured business loan, this quarter we have been a little more cautious because of whatever issues we are seeing on the SME side, because of three months back things were looking very bad. But at the aggregate level, we have started growing on a PL. You would start seeing numbers

improving from here because the organic growth is now on double digit plus. So that's my point.

Piran Engineer - Analyst, CLSA Limited
Okay. Organic loan book growth is double digit plus.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Yeah, on the PL side. And consumer durable obviously is a business we now don't focus on, so.

Piran Engineer - Analyst, CLSA Limited
Got it. And just lastly, your customer count has been declining for the last few quarters. It was 54 million a year back, 50 million today. Is it just simply an MFI thing clean up or is there something to read into this?

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Yeah. So a couple of reasons for that. One is there is an MFI clean up and two, also, some amount of dormant and inactive customers which we're just closing out. And in fact, that's a protective measure to make sure we don't get into that mules problem. So it's more of a clean up of the book.

Piran Engineer - Analyst, CLSA Limited
Understood. Okay. Yeah, that's it from my end. Thanks and wish you all the best.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Thank you very much.

Operator
Thank you. Your next question comes from the line of Kunal Shah with Citigroup. Please go ahead.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Kunal, what's up? How are you?

Kunal Shah - Analyst, Citigroup Inc.
Yeah, all good. Yeah. So, sir, particularly on the deposit side, so across the board, if we just compare amongst the private banks, there has been this step up on the deposit growth, be it on end of period as well as the average deposit growth has been quite strong across the board. For us, maybe we had seen some moderation out there. So maybe what would be the strategy we highlighted? We touched upon a lot in terms of the different initiatives on the deposit side, but it appears that amongst the top four banks, in fact, we still seem to be relatively lower in terms of the growth. So how do we tend to address that, both on the average as well as EOP? And on that basis, maybe what is the LCR for the quarter? It appears maybe we would have seen some decline in the LCR.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Yeah, okay. Kunal, hi, Anup here. On the deposit strategy, for us, continue to remain multi-pronged, driven through four focus segments, which we spoke about, and it continues to yield results. As a bank, we place greater emphasis on average balances rather than end-of-period balances. Overall, average deposit grew 13.6% YoY while average term deposit grew at 14% YoY. Our average CA balances grew 15.2% YoY. Trade and transaction balances continue to witness good traction during Q1 FY '27. However, this quarter, growth in CA was impacted due to moderation in capital market activity, which resulted in lower deal flow related balances.

Moving specifically to CA, average fixed deposit CA balances grew 16.4% YoY, again, very granular, reflecting strength of our focus customer segment strategy as seen in our granular low-cost deposit mobilization. As I already spoke about, the 811 CA who grew 32% YoY, again, fully granular, which now accounts for 12.7% of total CA. Similarly, we continue to see good traction on the HNI and Solitaire segment. However, this quarter, we saw some moderation in balances, primarily driven by flow movement from Private Banking segment of reallocation of funds from savings to investments.

So to that extent, these are one-off, but we continue to remain focused on granular, focused on average rather than EOP. That would continue to remain our strategy because that flows into straightaway to optimize the cost of funds rather than a template number of EOP.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
And Kunal, like last time you checked, you asked a question on increase in deposit rates in longer tenor buckets and will have an impact on our cost of funds. You can see that our cost of funds has only gone up by 1 basis point and it has had no such impact, exactly as we had mentioned.

Kunal Shah - Analyst, Citigroup Inc.
Yeah. No, true. That's commendable that margins are sustained. Yeah. So that's good enough compared to the guidance which was there in the last call or maybe the trends. So that's good enough. And secondly, when we look at it now, credit cost, even in, say, seasonally slower quarter, we had seen it settling much at a lower level. So now, being comfortable on the asset quality on the delinquency trend, would we look at stepping up on the advance growth as well? We have seen some uptick in, say, corporate, SME, some of the unsecured segment, MFI and all. But all around, when we look at it, it's been still 15%, 16%-odd for quite a while we had seen other banks stepping it up beyond the industry average. So when do we see that? Because there is a lot of comfort on asset quality.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. So, Kunal, I think you should look at it as multiple perspectives, right? The first thing, yes, we are very comfortable with where we are from a credit perspective, right? A lot of the hard work over the last two years to clean up the credit card portfolio, PL portfolio is now behind us. We are very comfortable. It's within our guardrails. It's all working quite well. Okay? Like we've said, unsecured, we will continue to grow. In rupee terms, we'll continue to do that. As Anup mentioned, business loans, we were a little cautious this quarter because of all the stuff that's happening, because of the supply chain disruption and impacts of that. We will continue to grow where we get opportunities. And think about growth. Don't think about growth only in one quarter, right? Think about growth over a certain period of time. Both organic growth and inorganic growth, and between organic growth and inorganic growth, we will deliver over the system, nicely over the system growth rates on advances, both secured and unsecured.

Kunal Shah - Analyst, Citigroup Inc.
Okay, so including the inorganic one?

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yes, including inorganic.

Kunal Shah - Analyst, Citigroup Inc.
Okay, okay. Got it. Got it, yeah. Thanks. That answers the question and all the best, yeah.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Thank you.

Operator
Thank you. The next question comes from the line of Ankit Bihani with Nomura. Please go ahead.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Hi, Ankit.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
Yeah, hi. Hi, hi. Thank you for taking my question. So my question is first on margins. So if we look at the reported margin decline of 14 bps QoQ, so I think last quarter there could be some day count impact. So if you could share, if you normalize the day count impact, what would be the decline? And the second question is, does our margin commentary now change, given that we have seen the wholesale funding rates also come down? So the funding environment is set to improve from here on. So any comment on that?

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Hi, Ankit. Devang here. So as I had indicated during Q4, the adjusted NIM as against 4.67%, if you were to adjust for the day count, it would have been 4.54%. And therefore, if you see in fact, my colleague is reminding me, in fact, since Q2, if you see Q2 was also 4.54%, Q3, which is December quarter, was 4.54%. If you look at the March quarter, which is equivalent of 4.67%, is 4.54%. And for this quarter, it is also 4.54%. So the margin has remained actually consistent. In terms of the future part, I think there are very multiple variables which are governing the outcome of this and which are constantly changing. So we would not like to provide any specific guidance on the NIM going forward.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
This doesn't change our guidance, basically, which you had provided in Q4. Anything on that? So you did provide some guidance in Q4, right?

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Yeah. So the guidance was at that point of time, but as you know, after that so many things have changed, right? In terms of whether FCNR(B) is up.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
One second, Ankit, one second. We didn't provide guidance.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Yes.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
We basically said that there's an industry commentary and there was a Kotak-specific commentary. And I think some of it got mixed up. We said on an industry basis, we will see some margin decline. By the way, we were absolutely right for Q4 and Q1. We said as far as Kotak is concerned, because we've got multiple horses in the race on the deposit side, and we'll manage the asset side in a nimble fashion, we will be fine. And that's exactly how it's played out in Q4 and Q1. The commentary about margin decline, I repeat, was an industry issue, not a Kotak-specific issue.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
Okay. That's very clear now. I missed out on the LCR part. So what is the average LCR for the quarter?

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
So we report--

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
For the bank?

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
We report the group LCR, which has actually increased from 134% in the Q4 to 143%. The reason, if you know, that we were, of course, having significant liquidity at March end itself. And from April 1, as you know, there are norms on LCR have changed, which has effectively added approximately 9% to 10% incremental LCR. So while on an average basis depending on the advance and deposit mix-up, actually it is showing an increase. But I think for the month of June and going forward, it will obviously start utilizing as we efficiently utilize this LCR amount to fund our balance sheet growth.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
Okay. And on the standalones from the last quarter you had highlighted it was 125%. This quarter, any number on that for the standalone bank?

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
So standalone, I think again, the advantage for this increase in this thing came only in the standalone. So the standalone Q4 average will be around 125%.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
And okay. And 1Q.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
No, I'm sorry, Q1. What I meant is Q1 is, yeah.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
It's 125%.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Q1, yes.

Ankit Bihani - Analyst, Nomura Financial Advisory & Securities (India). Pvt Ltd.
Okay. Thank you.

Operator
Thank you. The next question comes from the line of Rikin Shah with IIFL Capital. Please go ahead.

Rikin Shah - Analyst, IIFL Securities Ltd.
Hi. Thanks for the opportunity. Just had two questions. The first one, Kotak's loan and deposit growth is now about 350 and 150 basis points below the system, respectively. Despite having excess capital and lower scale, why is there a bit more unwillingness to accelerate without diluting the ROEs when some larger peers are able to deliver this? So that's the first one. And second question is on Deutsche's portfolio acquisition. Could you talk a bit more about the profitability of the

business acquired in terms of ROE, etc.? You did provide all the other details. Just was curious to know that the comment on ROE being accretive for Kotak, was it because of the excess capital being put to use? Or if you could just provide some colors on ROEs as well. That's it. Thank you.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. See, look, as far as the asset growth is concerned, our focus always has been secure, profitable and responsible growth. Responsible and profitable growth and not just growth for the sake of growth. So we focus on growth in high ROE businesses and businesses which, from a credit perspective, are good, right? And like I said, I don't think you should look at advance growth just for one quarter. Look at it for a longer period of time. And between organic and inorganic, we will comfortably drive over-system-level growth, right? I think deposit side, Anup took you through a lot of detail on how we're thinking about it and how we're driving. We continue to be very focused on the four customer segments. It's worked really well for us. It's granular, it's low cost.

You can see that we've maintained margins, and therefore we are driving both growth on the asset side and on the deposit side in a sensible and a profitable and responsible manner. As far as Deutsche is concerned, these are opportunities that come along. Like I've always maintained, we look at every single inorganic opportunity there is. The first question we ask ourselves, does this strategically make sense? Now, Deutsche has 150,000 customers, affluent and SME customers. So two of the customer segment focus areas, which we are very focused on.

So strategically, it makes a lot of sense. It's a pretty sizable transaction, INR29,000 crores of advances and INR16,000 crores of deposits, INR10,500 crores of wealth AUM. So it'll add meaningfully to the Kotak transaction. And yes, we definitely believe that the price at which we paid at INR281 crores, this will be ROE accretive to us. Now, the transaction actually closes in September of 2027. So the full contours of the transaction will only be got to know there. So I'm not going to hazard a guess as to what the ROE will be. And obviously, this will as we grow the balance sheet to this extent, it will consume some of our excess capital. And also as we look at the Deutsche portfolio, that goes into our focus segment philosophy of Solitaire HNI that strengthen that franchise. So it's a great fit for us from a customer segment point of view.

Rikin Shah - Analyst, IIFL Securities Ltd.
150,000 customers.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. 150,000 HNI Solitaire customers will come along.

Rikin Shah - Analyst, IIFL Securities Ltd.
SME, Solitaire.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
SME, yeah.

Rikin Shah - Analyst, IIFL Securities Ltd.
Just to follow up with clarification on this second one, Deutsche, sir, if I may. While, of course, I understand you can't talk about the transaction ROA down the line, but what was that in FY '26, if you could share that? And also had one additional question, if I may. In terms of the new CEO appointment, given your announcement, what should be the next steps and the potential timelines that we should be looking forward to?

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah, so Deutsche Bank, I don't know what ROA they made. It's difficult for us to quote that number. So I don't know that point. Plus, it's also a function at what price we bought it, right? And as you know we bought it at a pretty attractive price at INR281 crores. As far as the CEO succession is concerned, it's pretty straightforward, right? It's as per the RBI timeline and the regulatory timeline that has been set down. And the board and the NRC are totally committed to making sure that gets done within the regulatory timeline.

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
Rikin this is Paritosh. Just to go back on your point about asset growth, if you see this quarter, we have grown our corporate assets and SME assets, corporate and the credit substitutes. We found the market gave an opportunity. Short-term yields had gone up. So we took an advantage and grew our credit substitutes book by 38% quarter-on-quarter. And even corporate book also has gone up very significantly. SME, we continued with our growth pace. So that's what I want to say, that we will look at opportunity, and if there is an opportunity, we will capture that.

Rikin Shah - Analyst, IIFL Securities Ltd.
Fair, fair. Thanks, Paritosh.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Just one correction. I had mentioned the LCR. The LCR for standalone bank quarter one on an average basis is 134%, not 124%. My apologies. Thank you.

Operator
Thank you. Your next question comes from the line of Pranav with Bernstein. Please go ahead.

Pranav Gundlapalle - Analyst, AllianceBernstein Holding L.P.
Thanks. Hey, thank you for taking my question. My question is more on the Core India segment, which you highlighted as a key area of focus for you. What percentage of your 811 customers would have a credit account or credit relationship with you today? Because you do share the contribution of 811 to SA. So what would be the equivalent on the credit side? And how high do you think it can go and what will it take for the bank to get there?

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
So look, we don't disclose exactly the credit card numbers against the 811 segment. Now, what we have disclosed in the past is that when we got too aggressive about it, about three, four years ago, that did not pay very rich dividends, right? But I think the way you should think about this is that these are customers who are giving us low-cost granular SA deposits. And if we can just add any other product, whether that is a lending product, whether that is an insurance product, whether that's an investment product, whether that's a brokerage product, the profitability and the SA balances go up dramatically, right? So the focus is not so much as putting a credit card product.

In fact, the credit card product is a very complex product. And customer education around how a credit card works and stuff like that is not an easy thing. So even when we get to lending products, the initial focus is on personal loans. And only after the customer has gone through a bunch of personal loans, do we start getting into credit cards. Also, the one thing I must mention is, for this customer segment, what has worked really well is secured credit card, and that's doing quite well for us.

Pranav Gundlapalle - Analyst, AllianceBernstein Holding L.P.
Understood. Now, my question was just broader credit. Just trying to understand what percent of these customers would be a segment that you're comfortable lending to.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Sure.

Pranav Gundlapalle - Analyst, AllianceBernstein Holding L.P.
Because it's a very large base that you have right now. So just trying to understand what percentage.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
I think--

Pranav Gundlapalle - Analyst, AllianceBernstein Holding L.P.
Lendable customers. That's your credit.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Yeah.

Pranav Gundlapalle - Analyst, AllianceBernstein Holding L.P.
What's the lendable customer base in that whole narrative?

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Yeah. As Ashok said, we don't disclose that detail. But if you think about these two key segment, focus segment, when you say Solitaire and HNI, you think about it as a value economics. And when you think about core India, which is essentially mass affluent, which is the largest part of India's unit economics. So in a way, it will have the products which are more digitally given and digitally served, but more smaller lines. And over time, what we are seeing is, as their CASA buildup is very granular and very strong, you will start getting annuity benefit even on credit. We are cautiously growing it because the idea is we want them to go through the credit understanding and responsibly give them credit to grow. But over a long period of time, if you start thinking on medium term, this is superbly accretive. That's how you should think about it.

Pranav Gundlapalle - Analyst, AllianceBernstein Holding L.P.
Understood. Thank you very much for taking my call.

Operator
Thank you. Ladies and gentlemen, in the interest of time, we request all participants to limit themselves to one question each and rejoin the queue for any further follow-up questions. Our next question comes from Sumeet from Goldman. Please go ahead.

Sumeet Kariwala - Analyst, Goldman Sachs Group, Inc.
Hi, Ashok.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Hi, Sumeet.

Sumeet Kariwala - Analyst, Goldman Sachs Group, Inc.
Hey. Hi, team. Hi, Ashok. Congrats on the quarter. Just a couple of questions. One is if you can talk

about the impact of ECL, both one-time and on a flow basis. And second is--

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Sorry, on what?

Sumeet Kariwala - Analyst, Goldman Sachs Group, Inc.
I was thinking about the ECL transition.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Yeah. Expected credit loss transition. That's the one-time impact on net worth, as well as what should be the increase in credit cost on a steady state basis.

Sumeet Kariwala - Analyst, Goldman Sachs Group, Inc.
The second question is on FCNR (B). How are you thinking about that opportunity? Any targets that you have? Have you launched the product? Any clarity on that would be helpful. Thank you.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Hi, Sumeet. I will take the ECL question. As I had indicated earlier also, the one-time impact of the ECL transition is less than 2% of our net worth. On an ongoing basis, we expect the credit cost to go up by about 12 to 15 bps once implemented.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. Sumeet, FCNR(B) is something which we are quite excited about. Clearly, there is a lot of customer demand from NRIs. The question that we are really talking about is how much supply we can build up for providing leverage. And two, if you get a mix of three-year and five-year money, what do you do about it at this end? So early days yet, we are working through it. I think it's an encouraging start. We should have a much better picture in the next month or so.

Sumeet Kariwala - Analyst, Goldman Sachs Group, Inc.
Got it. Thank you.

Operator
Thank you. The next question comes from Chintan with Autonomous. Please go ahead.

Chintan Joshi - Analyst, Bernstein Autonomous LLP
Hi. Thank you for taking my question. Can I come on credit substitutes? It's up 38% quarter-on-quarter. You said you saw opportunities there. Could you tell us a typical duration of the product? How do you see the timing of how much it stays on the book? That's question one. And the second question, just a follow-up. You told us average deposits grew 13%, average TDs grew 14%, average CA grew 15%, average SA grew 16%. I'm just trying to square the circle. If the average deposit is 13% and all the components are higher, what was the moving part that we have missed in this bridge? Thank you.

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
All right. Let me take the question on credit substitutes. So large part of the growth has come from short-term. A large part of the corporate bank advances are short-dated and we saw opportunity when commercial papers were providing far higher yield compared to bank loans. And we moved quickly and captured that opportunity. Also, as you would know, on commercial paper, when you invest in credit substitutes or CP, CD, NCD, you do not have a PSL cost end of the quarter. So that's

further benefit in it doesn't get counted in ANBC for the next year PSL calculation. So to answer your question specifically, large part of the growth has come from short-dated paper.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
On your deposit question, I think we had mentioned only about the fixed-rate SA. The floating-rate SA balance average has gone down by 18%. So that explains your missing point, which is what is reducing.

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
Slide number nine.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
So if you see slide number nine, it shows floating-rate Savings Account, which is reducing by minus 18%.

Chintan Joshi - Analyst, Bernstein Autonomous LLP
Thank you. And if I may slip in one more, just if you can comment on the competitive dynamics in the quarter. Have PSU banks stepped back in any areas in the last quarter? Or any products where you see less intense competition or more intense competition? That would be helpful. Thank you.

Paritosh Kashyap - Whole-Time Director, Kotak Mahindra Bank Limited
I would not say we've seen less intense competition. And in fact, I don't think we should build our strategy, our thinking on a less competitive environment. We actually have to excel and just expect over a period of time competition only to get stronger and better.

Chintan Joshi - Analyst, Bernstein Autonomous LLP
Thanks.

Operator
Thank you. We request participants to limit to one question each and rejoin the queue for follow-up. Thank you.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Sagar, you're breaking out.

Operator
How about now, sir? Is it audible?

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yes, better.

Operator
Perfect. Thank you so much, sir. We request participants to limit themselves to one question each and rejoin the queue for any further follow-ups, please. Your next question comes from Seshadri Sen with Emkay Global Financial Services Limited. Please go ahead.

Seshadri Sen - Analyst, Emkay Global Financial Services Ltd.
Hi. Thanks for the opportunity. Just a quick question on the personal loan business. In terms of profitability and sourcing, I know you don't break it out in the results, but how is the trend? Is the ROA starting to expand now? And on the sourcing side, are you seeing more internal sourcing as the

years go by and going forward? And out of that, how much is digital sourcing versus branch-based sourcing?

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
Hi, Anup here. See, personal loan as a product, our focus is significantly internal sourcing because that's most accretive in terms of cost of doing business. A large part of it is either through the digital asset strategy, which I spoke about, the 811 strategy or Kotak app strategy for both the core segments. And a very large part of the business also happens through our branches. In addition to that, I also spoke about, in addition to the personal loan term loan business product, we have also introduced the personal loan overdraft product, which we believe is a very good product for the affluent segment. In terms of the return equation, there is good. As a business, you need to be very careful about risk there. Our risk numbers are now quite good and tolerable. As long as you maintain the few basic principles here and take out the cost of doing business, doing efficiency, it remains very accretive. So grow it at a very value compounded rate, not do it too very fast, not too very slow, and keep an eye on risk.

Seshadri Sen - Analyst, Emkay Global Financial Services Ltd.
Yeah, my question actually is the trend because, say, for example, credit cards, if we see the listed company there, their profitability has been declining structurally for now seven, eight years. So are you seeing similar trends at a profitability level? Because the headline yields on personal loans are declining as well. I take that you are getting benefit of cost and credit cost, but the headline yields are also declining.

Anup Kumar Saha - Whole-time Director, Kotak Mahindra Bank Limited
So your question was around credit card as well?

Seshadri Sen - Analyst, Emkay Global Financial Services Ltd.
No. It was on personal loans. I gave credit cards as an example. But the question is, personal loans ROAs, are they improving, declining?

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
No, no. I think we continue to maintain. We continue to maintain range-bound. And as Ashok said, the focus is on responsible and profitable growth and not growth at any cost.

Seshadri Sen - Analyst, Emkay Global Financial Services Ltd.
Understood. Thank you so much.

Operator
Thank you. Your next question comes from the line of Param Subramanian with Investec. Please go ahead.

Param Subramanian - Analyst, Investec Capital Services (India) Private Limited
Yeah. Hi. Thanks for taking my question. Just one question. Your yield on investments on a calculated basis, it appears to be dropping for the last two, three quarters. So what exactly is happening there? Because even in this quarter, I think the investment book has grown 11%, but the interest on investments has not grown. And neither has the MTM and treasury profit is not reflected in that as well.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Sorry. Investment yield also goes through the number of days concept as the advances I have explained. So that is we need to make adjustment according to them as well. So Q4 will be higher, similar to the advances similarly for the investment as well.

Param Subramanian - Analyst, Investec Capital Services (India) Private Limited
So is more a function of the average balances, or is the yield really dropping in the investment?

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
No, it is the number of days. It is the number of days which actually breaks up everything. And it basically evens out over the year.

Param Subramanian - Analyst, Investec Capital Services (India) Private Limited
Okay. Maybe I'll take this offline. Yes. Thank you so much.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Yeah.

Operator
Thank you. Your next question comes from the line of Jai Mundhra with ICICI Securities. Please go ahead. Mr. Mundhra, your line is unmuted. Please proceed with your question.

Jai Mundhra - Analyst, ICICI Securities Ltd.
Yeah. Hi. Good afternoon, sir. Thanks for the opportunity. Sir, if you can, last time you had shared your outlook for NIM for bank and maybe for the system. If you can refresh that will be very helpful. Thank you.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. So Jai, like we said, last time we talked about the industry and what the NIM we thought was for the industry. By the way, we were completely right, both for Q4 and for Q1. We do not give any guidance as far as Kotak NIM is concerned. Like Devang said Q2, Q3 -- sorry, Q3, Q4, Q1 has largely been flat, right? I mean, it's a difference of 1 basis point or so, right? And it's very difficult to give guidance, particularly with all that's going on.

Jai Mundhra - Analyst, ICICI Securities Ltd.
Okay. Sure. Sir, any timeline for you to achieve the mid-teen number of unsecured loan? I mean, that has started to grow up in absolute number, the unsecured retail. But how fast or how quickly can you reach to, let's say, your desired 15% or mid-teen number? Thank you.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. Look Jai, you got to be a little careful of these percentages, right? Because I don't want to hold back secured loan growth just to make a percentage, correct? So what I try and do is I'm trying to grow it in rupee terms. And like we promised, we said personal loans will come first out of the gate, then we'll see growth in microfinance, then we'll see growth in cards. It's worked out exactly like we talked about for the last four or five quarters, right? So we continue to say that we will grow in rupee terms. And eventually, the percentage will be really a function of both the growth in rupee terms as well as the growth in the secured book. We're not going to hold back secured just to make a percentage.

Jai Mundhra - Analyst, ICICI Securities Ltd.
Okay. Sure. Thank you, sir. Thanks and all the best. Bye.

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Thanks.

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

Ashok Vaswani - Managing Director and Chief Executive Officer, Kotak Mahindra Bank Limited
Yeah. Guys, thank you so much. Really appreciate your being here. I know this is a heavy day for you. So I'm going to let you go and listen to the other calls as well. Thanks a lot. Bye.

Devang Gheewalla - Group Chief Financial Officer, Kotak Mahindra Bank Limited
Bye-bye.

Operator
Thank you, members of the management. On behalf of Kotak Mahindra Bank Limited, that concludes this conference. Thank you, everyone, for joining us, and you may now disconnect your lines. Thank you.