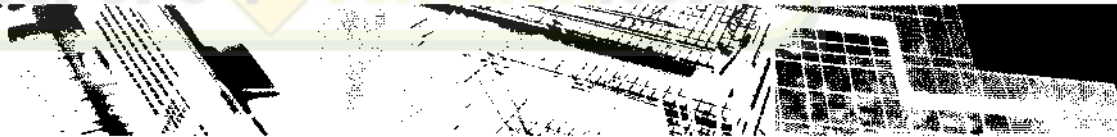


Growing with India

TWENTY-FIRST ANNUAL REPORT 2005-06



 **kotak**
Kotak Mahindra Bank

Think Investments. Think Kotak.

www.reportjunction.com

"When I first visited the USA many years ago, I was fascinated by the imposing presence of financial giants such as JPMorgan, Goldman Sachs, Merrill Lynch and Morgan Stanley. They started small, took their names from their founders and went on to become global financial institutions that far outlived the founders. I believed then, as I do now, that one day, India and Indian financial institutions would have their place in the sun. Kotak Mahindra was born out of this belief."

Uday Kotak



Kotak Securities had a market share of 8.5% in FY 2006

Indian capital markets witnessed record growth in volumes. The average daily turnover grew from around Rs 16,700 crore in FY 2005 to about Rs 28,700 crore in FY 2006. The benchmark BSE Sensex opened the year at 6,600 levels and when it crossed 7,000 in June, it was a new record. From 7,000 to 8,000 took 79 days, 8,000 to 9,000 took 81 days and in just another 70 days, the Sensex touched the landmark 10,000 figure. It was that kind of year.

Kotak Mutual Fund AUM crossed Rs 10,000 crore

Kotak Investment Banking topped the IPO league tables in terms of value of transactions in FY 2006 (Prime Database)

Kotak Investment Banking topped Bloomberg M&A league tables for CY 2005



● **Personal loan portfolio up
86% to over Rs 1,007 crore**

Last year, India witnessed the highest wage growth in Asia. 47 percent of India's 202 million households now make between Rs 5 lakh and Rs 40 lakh a year. About 1.6 million Indian households spend an average of \$9,000 a year on luxury goods. Traditional resistance to borrowing has given way to EMI lifestyles.

● **Home loan portfolio up 142%
to over Rs 971 crore**

Report  junction.com

● **Consolidated advances crossed
Rs 10,000 crore**

ReportJunction.com

- **Kotak India Real Estate Fund**
- domestic tranche commitments:
Rs 458 crore

India's per capita residential ownership is only 50 sq ft compared to 200 sq ft in China and 800 sq ft in the USA. India has only 15 million sq ft of shopping space but 50 million sq ft is being developed. India has added more office space in the first five years of the new century than it has in the first 50 years of independence. In the first six months of 2005, international investors invested \$100 million in Indian real estate.

● **Kotak Lifestyle NFO**
collected over Rs 870 crore
from 85,000 investors

● **Kotak Investment Banking solely advised**
Mantri Developers for the first apex level real
estate transaction: investment by Morgan
Stanley Real Estate of over Rs 300 crore

India's place in the sun



Dear Shareholder

In January 2004, when the BSE Sensex was at around 5,700 levels, I said to a television channel that 10,000 was conceivable in three years. That statement was received with almost unanimous incredulity. My colleagues said I should have been more conservative rather than stick my neck out the way I had.

My prediction was based on my belief in the India story. India was coming into her own as a global power to reckon with. I was confident the India story would only grow stronger with time. And it has.

What a year it has been for India. Four of the world's most prominent magazines, Fortune, Newsweek, The Economist and Time carried cover stories on India. Prominent among the political and corporate leaders who visited India during the year, were George Bush and Bill Gates: a testimony to India's growing political and economic significance on the global landscape. At the World Economic Forum 2006, the India Everywhere campaign was the toast of Davos.

India is now an independent asset class in itself.

Think India. Think Kotak.

In October 2005, Kotak Mahindra Group bought the balance 40% stake in Kotak Mahindra Prime from Ford Credit at Rs 120 crore.

In March 2006, Kotak Mahindra Group agreed to buy the 25% stake held by Goldman Sachs in Kotak Mahindra Capital Company and Kotak Securities for an aggregate consideration of Rs 333 crore.

Kotak Mahindra Capital Company and Kotak Securities, which occupy pole positions in their respective businesses, will thus become fully owned subsidiaries of the Kotak Mahindra Group.

For our clients, this move represents a more integrated product offering. For our shareholders, it unlocks more value. And for us at Kotak, it marks the start of a new era. One where we take charge of our destiny in the world's fastest growing free market democracy.

Think Investments. Think Kotak.

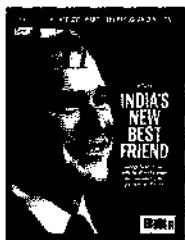
Kotak Securities reinforced its status as India's leading securities broking firm with 8.5% market share in FY 2006 (up from 6.3% in FY 2005). We enjoy a strong presence in retail as well as institutional segments. Our network has grown in step with the nation's investment appetite. We now have 660 offices across 232 cities (up from 500 offices in 155 cities in March 2005). We clocked average daily volumes of around Rs 2,440 crore in FY 2006 (up from around Rs 1,060 crore in FY 2005).

Kotak Investment Banking continues to maintain pole position. We have topped the league tables for book-running equity offerings, in terms of value of transactions, for four years in a row. We also topped the Bloomberg M&A league tables for calendar 2005. Apart from major IPOs and GDRs, Kotak Investment Banking also transcended geographies by structuring M&A deals such as the \$303 million divestment of promoter stake in Micro Inks to the European giant Hubergroup and acquiring stake in Hubergroup's European unit. The divestment of a 60% stake in Thomas Cook India Ltd to Dubai International Group is another such example.

In the Euromoney Private Banking Poll 2006, Kotak won awards in six categories including the Best Private Bank for ultra high net worth investors. Indeed, as more and more Indian families grow their wealth on the back of a burgeoning



The new vigor of India's economy has won New Delhi respect in Washington.
-Fortune, 7 Nov '05



A billion people in a functioning democracy. Isn't that something?
-George W Bush in TIME
6 Mar '06

economy, the Group's focus is on strong customer relationships in **Wealth Management**. We already manage wealth for over 3,000 Indian families across 14 cities and rank among the top three distributors of equity products in India.

In **Asset Management**, the Group manages/advises around Rs 18,600 crore of assets and continues to add alternate asset classes. **Kotak Mutual Fund** AUM crossed the Rs 10,000 crore during FY 2006. In FY 2006, we added **Private Equity** (India Growth Fund with commitments of Rs 707 crore) and **Kotak Mahindra Realty Fund** (with domestic commitments of Rs 458 crore).

The Building Blocks

While that covers some of our mature businesses, some of our comparatively fledgling businesses are saplings in comparison. The way I see it, you grow an organisation by consolidating and building existing businesses while also sowing new seeds, which become the trees of the future. Grow your trees, sow new seeds, nurture new plants. It's an ongoing cycle.

The **Stressed Assets** business is one such seed of a few years ago, which is coming into its own now with a portfolio of around Rs 419 crore (outstandings recoverable stand at Rs 2,400 crore).

Life Insurance and Retail Liabilities and Branch Banking are the other two businesses that are currently in the nurturing stage.

Kotak Life Insurance total premium income was around Rs 622 crore in FY 2006 (Rs 466 crore in FY 2005). First year premium income adjusted for single premium at 1/10th is up 82% to Rs 351 crore.

Kotak Mahindra Bank now has a branch network of 65 full-fledged branches (up from 38 in March 2005) including 21 semi-urban/rural branches across 43 towns and cities. By March 2007, this number will be up to around 110 branches.

Consolidated advances crossed Rs 10,000 crore and grew 46% YoY. Current Account and Savings Account (CASA) deposits are up 133% to Rs 1,250 crore.

And our people strength is up over 50% to 6,700 (up from 4,400 in March 2005). Strength is an appropriate word for our people truly are our biggest strength. It is a matter of pride that a number of our senior and middle managers have been with us for over a decade. We try and inculcate in our growing ranks the entrepreneurial spirit that is ingrained in the Kotak culture.

Between our established businesses, our fledgling businesses and our people, the building blocks of a global financial institution are firmly in place.

Warm regards

Uday Kotak

Executive Vice Chairman & Managing Director
Kotak Mahindra Bank



Despite being much poorer than China, India has produced dozens of world-class companies due to the fact that India has a real and deep private sector, a clean, well-regulated financial system and the sturdy rule of law.

-Newsweek, 6 Mar '06



There is an air of euphoric expectation that at last India is reclaiming its rightful place both in the world economy and in the global balance of power.

-The Economist,
25 Feb '06