

A CULTURE OF

PROFESSIONAL ENTREPRENEURSHIP

TWENTY-SECOND ANNUAL REPORT 2006 - 07



There are many entrepreneurs at Kotak Mahindra. Uday Kotak is just one of them.

 **kotak**

If what you create does not outlive you, then I think you have failed

Uday Kotak

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"I don't feel like an employee at Kotak. I feel like I am running my own business."

This is a statement you will hear from many an employee at Kotak Mahindra. Over the last two decades, the Group has drawn people who have the ability to build and nurture businesses. They are not entrepreneurs in the conventional sense of going the garage start-up route. They are professional entrepreneurs who build and grow businesses within the framework of an institution and its values. They have created a culture of professional entrepreneurship.

Attracting and retaining good people is the biggest challenge for companies across the world. We are proud to say that most of our key people have been with us for over a decade.

∞ kotak



Dipak Gupta

First charge | Senior Manager, Kotak Mahindra Finance

Current charge | Executive Director, Kotak Mahindra Bank

On being a professional entrepreneur | I used to be an engineer and then a consultant. My first job at Kotak was to look after the Lease and Hire Purchase business. We built one of the largest leasing businesses in the country. When Ford Credit came to India around 1995-96, we entered into a joint venture with them and it was very interesting discussing, debating and negotiating with them. I went on to become the head of that joint venture. Running different businesses while still being in the same fold gives you the twin benefit of a deeper perspective and wider all-round growth.



C. Jayaram

First charge | Vice President, Kotak Mahindra Finance

Current charge | Executive Director, Kotak Mahindra Bank

On being a professional entrepreneur | When I joined Kotak, I didn't really foresee that I would be running a business for the Group. As it turns out, I have been involved with building more than four businesses. Each one has presented its own set of challenges and opportunities. I can't think of too many companies which offer their people this kind of a canvas.

Kotak is number 10 on the list of India's best employers according to the Hewitt Best Employer Survey. We are the only financial services brand in the top 10.

Falguni Nayar

First charge | Assistant Vice President, Corporate Advisory, Mergers & Acquisition Group

Current charge | Managing Director & CEO, Kotak Investment Banking

On being a professional entrepreneur | Within six months of joining Kotak, I had to move to London for personal reasons. When I put in my papers, Uday (Kotak) offered me the position of Director & CEO for our UK operations. It was a great learning. I had to take care of all aspects of the business including legal, compliance, administration and business in a totally new environment. A few years later, I moved to New York where I got the opportunity once again to set up our operations in a larger and more challenging market. September 2001 saw my relocation to India where I joined as Co-Head of Kotak Institutional Equities. In 2005, I was given the additional responsibility as Managing Director and CEO of Kotak Investment Banking.



Gaurang Shah

First charge | Chief Operating Officer, Kotak Mahindra Primus

Current charge | Managing Director, Kotak Life Insurance

On being a professional entrepreneur | I came from a corporate finance background and joined Kotak's Car Finance business. That was in 1996. I was totally new to retail finance. In 1999, I took over as Executive Director of Car Finance and by 2002, we had built one of India's most profitable car finance companies. In 2002, I took over as head of Retail Assets and we added Home Loans, Subprime Lending in automobile financing and agricultural finance to our retail portfolio. In 2004, I moved into Life Insurance with my knowledge of insurance restricted to a single policy that I owned. My mandate is to build Kotak Life Insurance into one of India's top five insurance companies by 2010.





Jaimin Bhatt

First charge | Proprietary Investments

Current charge | Group CFO

On being a professional entrepreneur | My initial work at Kotak was in the area of Proprietary Investments, where I worked with Narayan (S.A.). Around the time of the Ford JV, I was invited to be on the team structuring the JV and that was very exciting. I moved to the Investment Bank and handled M&A. I was involved in a number of exciting transactions. Thereafter my role grew into a larger operational role at the Investment Bank and also included doing structuring work for the Group. What stands out for me is the freedom and sense of responsibility that one gets and this, in turn, instills a lot of self-confidence. As you grow and inculcate the same sense of self-confidence in those around you, it becomes a part of the culture.



K.V.S. Manian

First charge | Compliance, Kotak Mahindra Capital Company

Current charge | Head - Retail Liabilities and Branch Banking, Kotak Mahindra Bank

On being a professional entrepreneur | After two years in Investment Banking, I moved into Corporate Finance. I was instrumental in turning around and building the Retail Asset Finance Division (including the early stages of the Commercial Vehicle and Personal Loans businesses). The Asset Reconstruction Division was also started during the time that I was heading Asset Finance. When the Group restructured its business in preparation for the conversion to a bank, I managed the team working on viability, decision making and structuring of the banking business as a project. I now oversee the entire Branch Banking and Retail Liabilities business. It's been a diverse set of responsibilities and looking back, I realise that I had no prior experience in any of the functions.



Mohan Shenoi

Current charge | Treasurer, Kotak Mahindra Bank

On being a professional entrepreneur | Very few in the banking industry have the experience of starting a new bank. I had this rare privilege of associating with two banks right from their inception. The first was ICICI Bank and the second is Kotak Mahindra Bank. I was instrumental in setting up and managing the treasury in both banks. At Kotak, Treasury is one of the important contributors to the revenues of the Bank. Over a 29-year banking career, I have worked in branch banking, credit, recoveries, strategic planning and retail banking (apart from treasury). The environment at Kotak allows me to leverage this diversity of experience to the fullest.

Narayan S.A.

First charge | Associate Vice President, Kotak Mahindra Finance (Operations)

Current charge | Managing Director, Kotak Securities

On being a professional entrepreneur | In 1996, broking was largely seen as an institutional business. I believed that retail broking was an opportunity waiting to happen and took up the challenge of going retail. Today, Kotak Securities is India's largest stock broking house and we account for about 9% of daily average volume (in absolute terms, that translates into an average of about Rs.3,700 crore per day through the whole of last year). We have a presence in nearly 275 cities. I always wanted to be an entrepreneur and Kotak gave me an opportunity to build a business that any entrepreneur would be proud of.

Shanti Ekambaram

First charge | Senior Manager - Bill Discounting

Current charge | Group Head - Corporate & Institutional Banking, Kotak Mahindra Bank

On being a professional entrepreneur | I joined Kotak from a foreign bank. Since financial services was still a new area I was apprehensive but here was a company that seemed young and hungry. In the back of my mind, I knew I could always go back to a MNC if things didn't work out. That was 16 years ago and I'm still here and raring to go. I have run the Bill Discounting business, serviced FDI and started the M&A desk. When we entered into a strategic alliance with Goldman Sachs, I moved to look after that business and we dominated the GDR and private placement markets. I subsequently moved into the domestic Investment Banking business to develop corporate relationships, then head fixed income. In 1998, I took over as the CEO of the Investment Bank and we went on to top the league tables. In 2003 when the bank project was launched I was given the opportunity to build the wholesale bank. I don't think any MNC would give me so many opportunities for learning and growth.

Vikram Sud

First charge | Group COO

Current charge | Group COO

On being a professional entrepreneur | For 20 years I worked with Citibank, first in India and then in the Far East and the US. This is an exciting time to be in India so I decided to move back. The big draw for me at Kotak was the entrepreneurial culture and the amazing opportunities in a rapidly growing business. There is huge room for growth. Building efficiencies and scale is what I view as one of my main challenges.





Dear Shareholder,

As India engages with the global economy, India as an 'asset class' is becoming mainstream. This interest in Indian assets presents policy-makers with challenges such as managing global flows, consequent rupee appreciation, money supply and asset price increases.

At the same time Indian companies are acquiring overseas assets. While that may be appropriate in some cases, I continue to believe that for financial services the biggest opportunity is domestic-led, be it for Indian products and/or Indian customers.

The Matrix of Four

Against this backdrop, I would like to share with you what I call the Matrix of Four. I briefly touched upon it in my conversation with the Indian School of Business (ISB). That conversation is also featured in this annual report.

1) Indian products for Indian customers | This is the heart of what we do: serving Indian customers with a wide range of Indian products. Be it a Rs 50,000 personal loan or a Rs 10,000 crore IPO, our products run a wide gamut.

2) Indian products for global customers | I am proud to say that Kotak Investment Banking served many global corporations as advisors for India and Indian transactions. India is now a US \$1 trillion economy and one of the world's fastest growing. As global interest in India increases, we are expanding our suite of products for global clients, be it FII on the institutional side or international investment in Indian assets. We will selectively partner with entities in different countries for distribution and complement them with our fund management expertise. We did an AUD 75 million fund in Australia and are looking at a Shariah-compliant fund for the UAE.

3) Global products for Indian customers | This would include investment banking, convertible bonds, acquiring overseas business or investing overseas. To give you one example, Kotak Mutual Fund has tied up with T Rowe Price so resident Indians can invest in global products.

4) Global products for global customers | This is the final stage of evolution into a global firm. While our focus is on the first three segments outlined above, we will keep an eye on this segment as an aspiration for our firm over time.

The AND Principle

The AND Principle sounds a bit academic and intimidating but in actual fact, it is quite practical and simple. Presume, for a moment that you, dear shareholder, are hosting a popular game show on television and I am a participant. Suppose, again, you asked how I would like to grow the business and gave me the following choices:

a. Scale | b. Value | c. Quality | d. All of the above

My honest answer would be all of the above. At Kotak, we don't see scale, value and quality as either/or situations. We see them as synchronous. We call it the AND Principle. It's not something we just talk about or merely aspire to. We practice it day after day, in business after business. Let me give you a few examples:

Branch Banking | We set up our first branch in 2003, swiftly scaled up to 105 branches across the country and plan to reach 200 branches by the middle of next year. AND we will continue our focus on customer segmentation, high level of service quality and convenience.

Retail Assets | Our consolidated advances are up close to 50% year-on-year and the Bank's standalone advances crossed Rs 10,000 crore, which is 72% year-on-year growth. We probably have among the highest NIMs (net interest margins) in the banking segment AND simultaneously also probably among the lowest net NPLs (non-performing loans) ratio.

Stressed Assets | When we speak of NPLs, we exclude the stressed asset portfolio. Like I said in my letter to you last year, this is one of our fledgling businesses but it is coming into its own. We now have an investment of over Rs 500 crore in the business. AND the principal outstanding (that is recoverable) on this investment is close to Rs 3,300 crore. Historically, the returns in this business are attractive and we are one of the first Indian banks to establish itself in this space.

CASA | Our CASA (current account savings account) deposits grew 82% year-on-year, and we have around Rs 2,250 crore of CASA. Four years ago, this number stood at zero when we started from scratch. While the Bank's advances grew at 72%, CASA grew faster and therefore our CASA as a percentage of total deposits is up to 22% from 19%. AND we would like to see our CASA ratio continue to improve.

Wealth Management | The Group advises 3,700 high net worth families including around 30% of India's top 300 wealthiest families.

Securities | We continue to be India's leading stockbroking firm and do around 9% of India's average daily volumes (up from 8.5% last year). In absolute terms, that translates into average daily volumes of around Rs 3,720 crore per day (up from Rs 2,440 crore last year) and this includes both cash and futures segments. We continued to improve our presence both in retail and institutional segments. We added about 150 offices in FY07, which increased our footprint substantially across the country. AND this year, we plan to use these offices as a channel to sell third-party products such as mutual funds and life insurance. This will give our customers greater choice and help us maximise our network better. AND our research wing covers about 130 stocks in the institutional segment and about 135 stocks in the retail segment. We continue to focus on building research because we think it will be a key differentiator over a period of time. We added about 100,000 customers last year on the retail side. On the portfolio management side we have now about Rs 2,300 crore of assets under management with more than 50% under performance-linked fees.

Life Insurance | Total premium income is up 56% AND we have made some strategic changes that will create embedded value rather than just revenue growth. The focus has shifted from single premium and key-man insurance to individual standard policies.

Investment Banking | We were ranked number 4 for Asia (ex Japan) in terms of deals by value by Mergermarket. This is perhaps the first time an Indian company was ranked in the top ten in Asia AND the focus is not just on IPOs but also follow-on offerings. Not just rights offerings but also the QIPs and GDRs. Clients also see value in dealing with an

Indian and corporate AND investment bank. Our treasury, transaction and corporate banking functions are gaining traction to provide a full service suite of products to customers.

Alternate Assets | This is an exciting space and one that is witnessing high growth. India Growth Fund (the private equity fund) manages Rs 707 crore and the Fund continues to be in active investment mode. Kotak India Real Estate Fund-I manages Rs 460 crore AND our focus will be to launch new products in the year ahead and provide value to our investors and investee companies. The alternate asset businesses can be likened to acorns today but have the potential to be tomorrow's oaks.

Quality and People

Quality of service is directly linked to ones people and we have been singularly fortunate to attract and retain people with a very high sense of ownership. Some of our best people have been with us for over a decade and have demonstrated the ability to build, nurture and grow businesses. Some companies produce engineers, others produce smart managers. The culture at Kotak is one of professional entrepreneurship.

I am proud to say that we have won numerous awards which stand testimony to the quality of our products (including awards in 33 categories in the Asiamoney Private Banking poll alone). The awards, in chronological order, are listed on the Year at a Glance page.

We also won, for the first time, a mention in India's top ten employers according to the Hewitt Best Employer Survey. We are the only financial services company in the top ten. This honour comes in a year when we touched the 10,000-employee mark and proves, yet again, that value is embedded in the way we build scale. The AND Principle is at work even in Human Resources.

I have always maintained that the key difference between India and China is private enterprise. It is interesting to note that while China's GDP is around 2.3 times India's, the value of China's listed financial services sector is 10 times that of India's listed financial sector. Three Chinese banks now figure in the global top-ten list.

The world's wealth is moving eastwards and India's financial sector has boundless unrealized potential. May a million professional entrepreneurs bloom.

Warm regards,

Uday Kotak

Executive Vice Chairman & Managing Director
Kotak Mahindra Bank

