

'Giving family name to biz builds trust'

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A quarter of a century ago, if you had faith in the business plan of a 23-year old, fresh out of Mumbai's Jamnalal Bajaj Institute of Management Studies, and lent him Rs 1 lakh to start on his own in the financial services space, that money would have been worth Rs 300 crore now.

The young man, who people now know as Uday Kotak, surprised everyone in his joint family structure by opting out of the comfortable environs of a family business and deciding to start a bill discounting business of his own. That was 1985.

"I was given a space to house a 300-square-foot office at South Mumbai's Navsari Building by the family and started off on my own with funds borrowed from friends and family members at 12%." This was higher than what banks offered to its depositors at that time. "I subsequently lent the same at 17%, thus making a cool spread of 5%," Kotak reminisces with a far away look, sipping on the half a cup of tea that he ordered for himself, seated comfortably at his modest corner office in Bakhtawar building at Mumbai's central business district, Nariman Point. Compared to this, banks, mostly the PSU ones, operated on a

spread of 10-11%. Thus started a business that would eventually, in 2003, get the regulatory nod to become a full-fledged bank — Kotak Mahindra Bank — with Uday as its vice chairman.

As the bill discounting business grew in size, a formal business structure became imperative. On November 21, 1985, Kotak Capital Management Finance was

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formed with Sidney Pinto, Kotak's 'guru and advisor' playing an important role.

But many still wonder where does 'Mahindra' in Kotak Mahindra come from. The genesis of the Rs 26,400-crore financial services major is, therefore, quite interesting. At the time he started off, Mahindra UGINE Steel was a Kotak client in which Mahindra & Mahindra's current vice-chairman & MD Anand Mahindra was a top official. Mahindra had returned after higher studies and taken up the assignment at Mahindra UGINE Steel. "At my wedding reception, when discussion

between Pinto & Mahindra veered around to my business, Mahindra said that he would be happy to take a stake in the new finance company and participate in the venture", Kotak said. The rest, to quote a cliché, is history.

And thus in 1986 Kotak Mahindra Finance was formed with an initial equity capital of Rs 30 lakh. Kotak had studied some of the top financial services businesses in the West, like Goldman

Sachs and JP Morgan, and he found it was considered a symbol of trust if you were to give your family name to a company. "If you believe in yourself and the business, you should put your family name on the line," Kotak said.

The Mahindra in Kotak Mahindra actually comes from Anand Mahindra. "Some of the most successful businesses in the US have family names," he added.

One of the founding investors in the company was Kotak's father-in-law, based in Surat, who put in Rs 10,000. Kotak smiles and adds that he perhaps could not dishearten his son-in-law.

The billionaire businessman, as we found out during our over an hour-long chat, is not your regular banker. He smiles generously, is never standoffish against a difficult question and loves to rattle off anecdotes.

In 1986, Kotak diversified into the business of financing construction equipment. In the same year he bought a BSE broking membership in his own name since a corporate membership was not permitted then.

In 1989, foreign banks introduced the concept of car financing in the Indian market. Always looking to break the usual mould, Kotak devised an innovative way to finance cars. He found out that there was a long waiting period for getting a car. So the company started booking cars in its own name and buyers interested in on-the-spot possession of vehicles were required get them financed from Kotak Mahindra Finance. Kotak knew the pulse of the consumer and the business became an immediate success.

And in 1991, when Comptroller of Capital Issues (CCI) was abolished and Sebi became the stock market regulator, Kotak entered the investment banking business. The same year the company also went public, pricing its IPO at Rs 45 per share. The shares created a record of sorts, notching up prices in the range of Rs 1,300-1,400 on debut day trading.

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India can create a new financial service model, says Uday Kotak

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Though there was no looking back since then, it was not entirely smooth sailing. "Since 1992, the financial services companies have had to go through a series of *agniparikshas* (trials by fire)," Kotak said. He feels the Harshad Mehta scam of 1992, the CRB scam of 1996-1997 and the Ketan Parekh scam of 2001-2002 tested the mettle of finance companies in the country.

But it's not like Kotak to feel hemmed in. Since 1992, Kotak was feeling the need to know how the financial services around the world worked. Over the next few years he met several partners at Goldman Sachs, including Vinod Ahuja and Hank Paulson, and some others from the Wall Street giant's New York office. The big break came in 1995, when the Kotak-Goldman Sachs joint venture was signed. The same year a joint venture with another global giant, Ford Motor Company, was also signed. The Ford JV was to primarily finance Ford cars in India. "These partnerships helped us learn how to run a business on a long-term sustainable basis," Kotak said.

Some of the joint ventures, however, could not stand the test of time. The JV between Kotak Mahindra and Ford ended when the partners realised that a large portion of the car financing was for non-Ford vehicles. But with Goldman Sachs, "essentially, it was about control", Kotak said. The bank had a 75% stake while Goldman controlled 25%. "So we bought out Goldman's stake in the venture," Kotak said. We assume the cricketer in him, (which almost got him killed once) knows when to hit the ball for a six and when to defend.

It was in 2001 that the real big break came Kotak's way when RBI allowed private companies to apply for a banking licence. At that time, not many were interested to become a bank since it was not really the 'in-thing'. Of the 8-10 applications, Kotak Mahindra Finance, the NBFC, and Yes Bank got in-principle nods from the regulator to start banks. After a series of internal restructurings, Kotak Mahindra Bank came into existence in March 2003.

Where does he go from here? Does he want to acquire a bank or does he want to grow by expanding the relatively high-cost branch network or just through non-bank channels such as ATMs, netbanking, telebanking and mobile-banking. "We are 250 branches at present,



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expecting to reach 500 branches in the next three years. We don't see ourselves as big as SBI. Not in my lifetime," Kotak said.

Asked if he is limiting his ambition, Kotak said he is happier focusing on the immediate deliverables. "We have to differentiate on the quality of our technology and the quality of the service we provide. The differentiator would be the service, encompassing solutions and convenience," he added.

Kotak also has a very interesting take on financial inclusion, the buzzword among all banks in the country. For Kotak, financial inclusion is just not about bringing villagers and farmers within the banking environment. For him, it is as much as bringing in urban poor into the banking network. The banker believes that most underestimate the extent of rural prosperity. "We are seeing farmers to be good credit customers. Financial inclusion just does not mean getting the rural unbanked population into banking and giving access to credit [to those] who don't have that access."

Kotak is almost always blamed by his competitors for bringing in the zero-fee structure in the divestment of government-owned com-

panies, something which has become pretty much the norm now. But he chose to clear the air. "We did not quote zero fees. The lowest bidder had quoted that. So the choice for us was either to be part of the divestment at zero-fee or walk out," Kotak said. "We stayed back because I believe that the highest prestige for a banker is to serve the sovereign."

What is his outlook on the financial services sector? Kotak feels that the financial crisis in the west has taught that although the issuer-investor structure which is the capital market model, is more rewarding than the saver-borrower model, it also calls for a very high level of integrity. "That suffered," he said. "So India can actually create some new model and leapfrog in the financial services sector," Kotak added.

With the finance minister recently announcing that the RBI would issue a few additional banking licenses, it's bound to give the existing players some points to ponder about. But Kotak is nonchalant. "It is a business of trust, credibility and integrity. So one needs to maintain a high standard for building trust. The key is to have people who can build trust with minimum conflict of interest," he added.

With banking becoming a highly lucrative business, the veteran banker feels that unlike in 2001, this time around, 60 to 100 NBFCs could aspire to become banks.

Kotak is extremely confident about the future of his empire and the growth of the economy. And like a lot of other bankers, he bases his growth largely on his confidence in the Indian economy. He feels that on an average the GDP is expected to grow at about 8% per annum over the next few years. "If we assume an average rate of inflation at 6%, the nominal yearly growth of the economy is about 14%. The financial services sector usually has a multiplier of 1.5 times to 2 times. So we should grow at about 25% to 30% over the next few years," Kotak said. "One should remember that a growth of 25% per annum over a three-year period doubles your money," he added.

As launching his start-up, Kotak took 25 years to turn a Rs 1-lakh corpus into Rs 300 crore. So how long will he take to turn the next Rs 1 lakh from investors into Rs 300 crore? He doesn't have a definite timeframe, but has enough faith in the economy to do that much sooner than a quarter of a century.



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