

News monitored for: Kotak Mahindra Bank

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Kotak's new challenges

GROWTH HURDLES The financial group has come a long way, but the next round may be tough

financialfizz

Sandeep Singh & Sachin Kumar
sandeep.singh1@hindustantimes.com

MUMBAI: "We just sit back and wonder — *Yeh kya ho gaya?*" (What has happened?) says Uday Kotak.

That is a modest look-back at his business that has come a long way from being a humble auto loan lender to a diversified financial services conglomerate in which the Kotak Mahindra Bank has had a pride of place since 2003.

The bank's share value has multiplied 23 times and its market capitalisation is just shy of ₹28,000 crore.

That's quite some growth since the days when it started out as three people in a 300-square-foot office in 1985. Today it has more than 20,000 employees and ₹10,000 crore in revenue as it completes 25 years. The group plans to double revenues over the next four years, adding 2,500 employees every year.

A management graduate of the Jajmalal Bajaj Institute of Management Studies, vice-chairman Kotak, 51, calls the success "a product of the reform process" that kicked off in 1991, opening up the state-dominated financial industry to private enterprise. An investment banking partnership with Goldman Sachs proved critical in Kotak's heady growth through the 1990s.

"We are fortunate that India's nominal GDP growth is 14% per annum. Our view is that we want to grow 1.5 to 2 times the nominal GDP," Kotak told HT.

For two decades, his entrepreneurial comrades have been C Jayaram and

Dipak Gupta, now executive directors at Kotak Mahindra Bank.

What started as a non-banking financial company (NBFC) has been left behind. Along the way the group struck big money in deals like the investment banking deal that brought HongKong's Hutchison group to India's telecom industry. The focus is now on the bank.

"There will be disruptive change. We would have 500 branches by 2012 and the optimum number overall is anywhere between 500 and 1,000 branches. Beyond that it's a very difficult call because of changes that will happen as a result of growing technology," said Kotak.

After all, the bank faces formidable competition from both homegrown entities like ICICI and foreign banks that are set to get more licences.

The group aspires to have 60 to 65% of its revenues from the banking business but aims to maintain the leadership position in all segments such as investment banking, stock broking, investment management, wealth management and insurance.

Given the current state of the financial services industry, Kotak feels that banks need to invest a lot in building culture and get rid of the approach for short-term gains.

"This is creating significant cultural issues which are inconsistent with sustainable trust," he said (See interview).

Kotak said he is worried about the trust erosion in banking after banks turned aggressive sellers of mutual funds and insurance policies, exposing clients to losses. "I want to see how can we change this."

It does not help that the group has seen staff attrition while a war for



A MANY-HEADED CONGLOMERATE

From humble beginnings to ₹10,000 cr revenues and 20,000 staff, Uday Kotak's financial dreams have come a long way.

Company	March 2005		March 2010	
	Revenue	PAT	Revenue	PAT
Kotak Mahindra Bank (consolidated)	1,711	194	10,053	1,307
Kotak Mahindra Bank (standalone)	564	85	4,010	563
Kotak Mahindra Prime Limited	260	92	992	166
Kotak Securities Limited	130	106	838	260
Kotak Mahindra Old Mutual Life Ins.	505	-46	3,927	69
Kotak Mahindra AMC	23	3	176	66

(Figures in ₹ crore)

The road to growth

1985: Enters as an NBFC (non-banking financial company) to capitalise on the inefficiencies in the banking system — Public sector banks were sitting on fat 10-plus margin between lending and deposits

1989: Forays into the car financing

sector where Citibank was the only competitor

1991-92: Enters investment banking

2000: Forays into life insurance business.

2003: Enters banking business.

talent is on.

"As an industry attrition rate is high particularly in the front end (attrition rate is 30%). So it is very difficult to attract and retain talent," said Gupta, who also heads human resources at Kotak Mahindra Bank.

In investment banking, the group has failed to evolve as a global player, but Jayaram says that it has been a conscious choice as the group first wanted to establish itself at home.

"Our real challenge is to now try on our own to cross that rubicon and see that do we have the ability to do an ADR or GDR," said Jayaram. "We have tied up with various companies

in different geographies to service M&A activities"

Kotak represents a breed of entrepreneurs more aligned to professionally run companies and does not speak of his two sons following him as inheritors. "He (my son) is not going to sit in my chair. Fortunately, I am not old enough now."

Kotak has faced criticism for his brusque style, but his key aides do not agree. "Uday is not an authoritarian and there is system in which the top 20-30 people can have disagreements with him. He is able to engage in discussions and listen to others' views," says Jayaram.

FROM DEALS TO BRANCHES

- The Kotak group has evolved from three people in a 300-square-foot office in 1985 to 20,000 employees now
- Focus has shifted from non-banking financial services to aggressive growth at Kotak Mahindra Bank
- Talent is a big challenge for the group that has seen staff attrition.
- The group now plans to add 2,500 employees every year
- KMB plans to have 500 branches by 2012.