Interactive Session with Mr. Uday Kotak, Managing Director & CEO, Kotak Mahindra Bank Limited, on the occasion of the 25th Lalit Doshi Memorial Lecture held on 5th August 2019

Question:

Thank you very much. It was very a fascinating lecture. You laid out very nicely what should be and what your vision for the financial system over the next 10 to 15 years is. I would love to hear your views, what you think likely to be, where do you think there is appetite out of the ten things you laid out, what are the two or three things which you think will definitely happen and things which are not going to happen

Mr. Uday Kotak:

One thing I have learnt as an entrepreneur is you must have endless hope in the future. Two days ago I spoke on a subject at another conference where I said future is bright. I genuinely believe that at this stage let's not be pessimistic or cynical about what can or cannot happen. Let us put it out all there, give our best and even if we get a very reasonable percentage of what our vision is we would have made a huge amount of progress. In my career from 1982 to now, what I have seen is that if you keep on pushing the envelope, change in India does happen. Maybe it takes a little longer. I give a comparison of a Bollywood movie, at any point of time in a Bollywood movie, the photograph is very challenging. But like all Bollywood movies they are normally long and they have a happy ending. I have confidence that we will get there at a pace but change will happen.

Question:

PM Modi has said he wants India to become a $5 trillion economy by 2024. With the slowdown in the economy that is being reported, do you believe that we will be able to achieve the goal?

Mr. Uday Kotak:

I completely support the Prime Minister's vision of a $5 trillion economy. Let us not give up. We have to make it happen. We may have started a little slower, but we can always gather pace and momentum. As we make changes, we should be aiming about taking this economy to start with higher than 7% and ultimately to 9 to 10%per annum and that is only way we will catch up. My dream as I said goes back to India's long time average of the World income over two thousand years which is 25% of global GDP. We are at less than 5%. We must think and dream big like entrepreneurs and Indians have the ability to dream. But we need to combine that with superior execution and I have no doubt that the outcomes are there for us. It is our ability to take some of the bold calls and execute them.

Question:

If manufacturing and exports are ignored can finance solve all the issues?

Mr. Uday Kotak:

If you notice what I said, I am great believer in trade and finance, that is where our roots are and India's roots have been. Therefore I am a big believer. We need to increase the size of India's global trade, both imports and exports. Therefore, our current account deficit (CAD) has to be looked as a percentage of the trade volume. I would like to see both exports and imports dramatically increase. That is our engagement with the rest of the world. From time to time I hear, oh protectionism is there, etc. but the fact of the matter is we as Indians need to get far more competitive. Who is stopping us from increasing our competitiveness? That is in our hands. We cannot depend only on the currency. I believe the currency has also got some role to play, but it is time for us to build our competitiveness rather than on depending on government or currency movements for our export competitiveness. We should be open to both export and import substitution. Not one over the other, but let us focus on trade and finance, as what is in the Indian blood and transform our country.

Question:

Thank you so much. That was a wonderful lecture. You made a very insightful observation that a no first class economy has been built in the world on persistent current account deficit. Very right observation. Even Roman Empire struggled with it. Domestic savings can come only from government or private. We expect government to give us stimulus through expenditure that leaves us with private. How would you suggest we should promote domestic savings from private sector and private individuals?

Mr. Uday Kotak:

My view is if you look at our current account, disproportionate part of Indian savings is exported for import of gold. One of the things we need to think about is how are we going to recycle gold within India. If government acts as the intermediary and says that instead of importing gold I borrow gold from gold savers and sell it. Of course there is a counter party risk which is the Sovereign. We should be thinking out of the box to dramatically reduce/stop our domestic savings going into global gold. That is a very large drain on the Indian economy. There are various other measures. One of the reasons for argument for higher real interest rates in India is to get more financial savings in. But, how much higher real interest rates? 1%, 1.5%, 2%, but certainly not 3% & 4% real interest rates. Finally we must be good users of domestic savings. If those domestic savings are not well-used or misused which comes to the whole area of governance, managing our businesses better. Those issues we really need to crack. Competitive country is the one which has the ability to sell its products anywhere in the world. That is what we really need.

Question:

Thank you Sir for delivering such a beautiful speech. Even after RBI's constant reduction in the interest rates why most of the banks fail to transmit the benefit to the public in the form of reduction in the borrowing and lending rates?

Mr. Uday Kotak:

I think picture *abhi baaki hai*. You watch what happens in the next 20 to 30 days. There will be further reduction I believe across the banking systems. One of the points also is the government's small savings rate. If they are high it reduces the banks' ability to drop deposit rates. If government's small savings rate come down that will enable banks' to drop deposit rates. Finally, banks are converters. Our raw material is deposits. Then we are lending. If we see government's small savings rate come down that will be a big step towards banks' ability to drop deposit rates. Having said that, I would like to tell you that, this is something which we are seeing it in our Bank, our cost of funds is certainly improving that is true for most of the other players in the banking system. In the next 20 to 30 days you will see movements of interest rates on the borrowing side come down and deposit rates also should come down as I see it. Then if government drops small savings rate that will help even further.

Question:

Thank you for a very interesting and insightful points. One word you have used is "tryst". My question is how much trust you need. You mentioned about risk capital. There is a perception that crony capital continues in some form behind the curtains but upfront there is big bashing of capitalism. The trust between the government and capitalism has broken down, unless we do that and create a structure openly, we have the political capital to do that, I think it will take you to 6.5% to 7%, but not 10%.

Mr. Uday Kotak:

I completely I agree with you. Maybe Bharat (Mr. Bharat Doshi) we should have changed the title to India's Trust with Finance. That is a fair point. That is something very deeply disturbing. Every day you find something or the other having gone wrong with the country and its business in how it has managed its money. This is a serious issue. There are two ways you can build this trust. One is by rules and second is by behaviour and conduct and culture. We need both.

There is nothing which will ultimately solve this unless we dramatically and deeply change the culture of how we run our businesses. That culture takes time. You need some shocks in the system like the ones which we are seeing right now. It has to be combined with a significant culture improvement in behaviour and conduct of both entrepreneurs and professionals across business including the financial sector. I share with you on this subject. So it is India's trust with finance as I see it.

Question:

How realistic is inflation rate of 3.2% is?

Mr. Uday Kotak:

I think you have to tell me, because from what I hear, one thing I know for a fact, I have not increased the amount of money my wife withdraws from the bank account every month for the last one year. She has lived within her means as I see it. That is a good sign and she is not complaining about wanting a serious increase in the withdrawal every month. That is certainly a good sign. But if you look at various other data points, if you look at sales of cars, if you look at sales of trucks, sales of tractors, sales of two wheelers, they are all showing a slowdown. Even input items beginning to show some correction. I do believe that there is a significant reduction in the levels of inflation in the last 12 to 18 months and that is not only domestic it is global. If at all as I said we probably have overestimated our inflation. Having said that, would it go up again over the next one year? I think it could. We should be responsive to the change. To a certain extent we need to be ahead of the curve so that we begin to see growth come back into the economy. Therefore, I would like to believe that the CPI numbers are reasonably robust and the real world data indicators do indicate that inflation currently is under control.

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