

The Karnataka Bank Limited Third Quarter Ended December 31, 2014

Conference Call Transcript

**Event: The Karnataka Bank Limited Third Quarter Ended
December 31, 2014 Conference Call**

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The Karnataka Bank Limited Third Quarter Ended December 31, 2014

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Managing Director and Chief Executive Officer – The Karnataka Bank Limited

CONFERENCE CALL PARTICIPANTS**Ganesh Shetty**

Mumbai

Amit Rane

I Wealth Management - Mumbai

Subhankar Ojha

SKS Capital - Kolkata

Chinmay Desai

Annual Share and Stock Broking Private Limited - Mumbai

MP Mahesh

Kotak Securities - Mumbai

Chetan Vadia

JSP Securities Private Limited - Mumbai

Keshav Shah

Anand Rathi - Mumbai

Rithika Dua

B&K Securities – Mumbai

PRESENTATION**Geetha – Moderator**

Good morning, ladies and gentlemen, I am Geetha, the moderator for this conference. Welcome to the Q3 earnings call of Karnataka Bank Limited. Shri P. Jayaram Bhat will be call leader today. For the duration of the presentation all participant lines will be in the listen only mode. After the presentation the question and answer session will be conducted for all the participants in the conference. I now hand over the call to Shri P. Jayarama Bhat. Thank you and over to you Mr. Bhat!

P. Jayarama Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Thank you. Good morning. I think all of you are hearing me. We had announced our third quarter results yesterday and the analysis of the results were also published in the website yesterday only.

To give you some of the highlights which you would have already observed, deposits grew by 15.81% YOY, advances grew by 12.34%, then the investments grew by 11.67%. The average incremental CD ratio for the December quarter was 110.59%. Net interest income has gone up from Rs 271.50 Crores to Rs 302.05 Crore showing a growth of 11.25%.

There was a robust increase in other income and quarter-to-quarter it was Rs 97.85 Crore to Rs 162.83 Crore and in that trading profit has gone up from Rs 9.74 Crore to Rs 67.11 Crore, even the fee based income also has shown a growth from Rs 88.11 Crore to 95.72 Crore.

Operating profit YOY and quarter-to-quarter- it went up from Rs 168.75 Crore to Rs 183.26 Crore. Net profit however was flat from Rs 106.70 crore to Rs 106.94 Crore and net interest margin last year for the corresponding quarter it was 2.44%, it came down just slightly to 2.41% and cumulatively the net interest margin has come down to 2.38% from 2.49%

Then CASA is somewhere near 24%, it slightly came down from 24.76% to 23.97%. In that the SB accounts stand at Rs 8101 Crore compared to Rs 6940 Crore last year's last third quarter, showing a growth rate of 16.74% and current account has shown a growth rate of 16.77%.

Then , the yield on advance for December, 2014 quarter cumulatively it was 12.06% compared to 12.39% for nine months period earlier. The cost of deposit has come down from 7.94% to 7.90%.The spread was 4.16% compared to 4.45% a year back. Adjusted yield on investment has moved up to 8.23% cumulatively From 7.50%. ROA has also moved up from 0.71% to 0.86%.

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Provision coverage ratio stands at 47.10% compared to 51.01% a year back. As far as NPA is concerned, slippages for the quarter was Rs 283 Crore and recovery for the quarter was Rs 289 Crore including write offs and cumulatively it was Rs 778 Crore and Rs 560 Crore respectively was recovery compared to Rs 569 Crore and Rs 211 Crore during the previous year.

Return on equity has cumulatively gone up to 13.18% from 10.36%. Write off under recovery for the quarter, was Rs 120.42 Crore and for the nine months period the write off was Rs 197.88 Crore.

Our restructured portfolio stands at around 6.55% of advances amounting to around Rs 1978 Crore and restructured portfolio and gross NPA put together it comes to 9.99%. In the Investment portfolio, RIDF has come down substantially from last year to this year from Rs 2737 Crore to Rs 1976 Crore. There was a reduction of Rs 761 Crore during one year and the yield has also moved up substantially. Yield has moved up to around 4.78% from 4.56%.

We have already reached our priority sector advance target. We are at 43.4% as against 40% stipulated. Agricultural advance was at 16.72% and we are certain to reach 18% by March 2015.

CRAR that is without adding the nine months profit as per BASEL-II it is 11.99% that is 9.87% plus 2.12%, and as per BASEL-III the tier I was 9.84% and tier II is 1.95% and total is 11.79%.

Coming to the investment the modified duration for the total investment portfolio is 3.70% and for AFS and HFT, (in fact HFT is 0 now). It is 2.12% and for HTM it is 4.28%. As far as the profit from trading on securities, as of December 31, 2014 it was Rs 101.39 Crore. As of September 30, 2014 it was Rs 34.28 Crore, a jump of Rs 67.11 Crore in this quarter and compared to the last year's figure, last year the same period it was Rs 92.91 Crore compared to Rs 101.39 Crore. So this is as for as trading profit is concerned.

Depreciation was Rs 54.91 Crore compared to Rs 66.82 Crore sequentially, the second quarter and in the second quarter also the adjusted yield was 7.71% and now it is 8.23%. Then SLR yield last quarter it was 7.58% and now it is 7.60%. Non-SLR yield including RIDF it comes to 6.25 compared to 6.24 and RIDF as I have already told you it has moved up to 4.77% compared to 4.56% a year before.

These are some of the highlights and I leave the forum open to any questions.

Geetha – Moderator

Thank you very much. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask question, may please press “*1” on their touchtone enable telephone keypad. On pressing “*1” participants will get a chance to present their question on a first in line basis. To ask the question, participants may please press “*1” now. First question comes from Mr. Ganesh Shetty from Mumbai.

Ganesh Shetty – Mumbai

Congratulations sir for excellent set of numbers. Sir my first question is regarding our employee expenses as in now we are spreading our branch expansion, employee expenses will considerably increase and in that context the business per branch will not increase substantially. Will it cause some operating pressure on our performance? Can you please explain this Sir?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

You are right. You have observed that there is a jump in employee expenses but the normal employee expenses have not gone up. It is almost stable throughout these three quarters. The jump in the employee expenses is on account of providing more for superannuation benefits on pension, gratuity and leave encashment. Now you know as per the policy, which has been laid down by Indian Banks Association the superannuation actuarial liabilities have to be calculated based on two factors, mainly one is salary escalation rate and another is discount rate. Salary escalation rate as per the advise we have taken it as 5% as advised and the discount rate has to be tagged to the FIMDA rate. So when this yield rate changes we may have to provide correspondingly proportionate for the superannuation benefits that is why as the yield has come down drastically in this third quarter we had to provide for employee benefits, employee cost by way of additional superannuation benefits to the extent of around Rs 87 Crore additional and that has reflected in increase in the employee cost, we are expanding aggressively, we are opening more and more branches and we are recruiting also but the additional business takes care of these expenses and employee expenses normal increase is there, You need not have any apprehension that employee expenses are going up on account of increase in the number of branches as well as increase in the business.

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Ganesh Shetty – Mumbai

My second question was regarding our NPAs, last year we had expressed our intention to service some of our stressed assets to asset buying company, so what is the status over there and have we received good amount over there and we are still negotiating with the companies? Can you please throw some light on this?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

No, once we sell the assets, it will be reflected in the security receipt value (SR) , and as of now we have not found any depreciation on these SRs and the selling or recovery aspects and all that is left to the reconstruction companies, they will give us only the latest NAV on these SRs. So as of now we do not find any depreciation in the SRs.

Ganesh Shetty – Mumbai

My third question is regarding (indiscernible) picker as in again this quarter, December and moving towards new quarter that is last quarter of the present financial year do you expect very strong (indiscernible) with the improvement in macroeconomic conditions Sir?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Direction is very clear. In fact we have published in our analysis also, in the last quarter even though the quantum was low, but the incremental CD ratio has come up to a level of 110.59%. That is our increase in the advances is robust in the last quarter and we will be aggressively marketing advances and you know even the percentage which we have been telling, credit retail to corporate is also improving in favor of retail portfolio and I think by the year end it will be around 50-50, 50% retail and 50% corporate.

Ganesh Shetty – Mumbai

Sir, last quarter you have guided that by the year end we will have net NPAs of around 1.51% so now I think it is slightly above...?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

You are right. In fact I had anticipated gross NPA at a level of 2.9% by December and 2.5% for March, but there were some aberrations and there were some slippages in two or three big accounts, two or three big accounts itself it amounts to around Rs 160 Crore and we are trying to recover the amount in these two or three accounts. In fact we have sold our assets to the asset recovery companies and with that we were anticipating 2.9% but some slippages as I told you, fresh slippages went up to almost Rs 283 Crore in this quarter and around 160 to 170 Crores only three accounts put together is around Rs 170 Crore and if they are recovered definitely we will be bringing down the gross NPA to the level of around say 2.75% to 2.8%.

Ganesh Shetty – Mumbai

All the best. Thank you very much.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Thank you.

Geetha – Moderator

The next question comes from Amit Rane from Mumbai, I Wealth Management.

Amit Rane - I Wealth Management - Mumbai

Thank you for the opportunity. If you can give me some color of this Rs 160 Crores, the three accounts, what are the chances of recovering it over the next one year or so or which are the sectors from where they are coming?

The Karnataka Bank Limited Third Quarter Ended December 31, 2014**P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited**

In this one relates to one contractor, he is into the road construction because of not receiving the money from the government, his account became NPA and this amounts to around Rs 65 Crore one account and these account was performing under restructured category and now the amount has not come that is why the account has become NPA. Another is an industry and this is a big group. I think they will come out of this shortly. It is a consortium account and our share maybe around 8% to 9%. So this also is a big account, amounting to around Rs 70 Crore. There is some one in Tirupur, one spinning mill is there, there the amount is around Rs 20 to Rs 28 Crore all these accounts, were with us since long and we are pursuing the recovery and I think if recovery comes, we will be out of these NPA.

Amit Rane - I Wealth Management - Mumbai

Ok and Sir, we were guiding for around 3% kind of gross NPAs in December quarter. Now what is our guidance for the year end?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Just now I answered. If these recoveries come then we will be somewhere near 2.75% to 2.8%.

Amit Rane - I Wealth Management - Mumbai

But Sir, how confident are we?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

These are all depending on the macro sector. As I said, in one account government payment has not come, so the economy has still not improved. Once it improves then we are also thinking of robust recovery in the last quarter. Some recoveries, which we have been pursuing have not come still, if it comes the recovery will be more than the additions and there are no much accounts, knocking at the door as of now. I think the table will be tilted more towards recovery than addition and naturally the gross NPA will come down.

Amit Rane - I Wealth Management – Mumbai

Sir, have we reduced our business guidance as well because in the last presentation the number was 83000 Crores. Now it is showing 80000 Crores.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

We have already published in our analysis of these figures and we have reduced from Rs 83000 Crore to Rs 80000 Crore, and hope we will reach that figure. As far as increase in the number of branches to 675, we are on track and by March it will be 675, number of ATMs to 1000, all these we have retained except the figures 83000 Crore to 80.000 Crore

Amit Rane - I Wealth Management - Mumbai

I was trying to connect it with our press release, in press release we are saying the business sentiments are gaining momentum?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Exactly, for the future.

Amit Rane - I Wealth Management - Mumbai

While on the other hand, we are reducing our guidance.

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P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Whose press release?

Amit Rane - I Wealth Management - Mumbai

The press release?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Of ours?

Amit Rane - I Wealth Management - Mumbai

Yes.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Now we are seeing some positive momentum. That we will catch up and see that we will reach our revised figure of Rs 80000 Crore. Now we are at Rs 75000 Crore plus and in three months I think we can reach Rs 80000 more than that it may be difficult and it is also wrong in aggressively going in advances also.

Amit Rane - I Wealth Management - Mumbai

Sir, our fee income has declined in nine months YOY comparison? So what are the reasons for the same and what are the measures that we are taking now?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Nine months YOY it has...

Amit Rane - I Wealth Management - Mumbai

Almost nine.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

See in that you have to have a bifurcation of fee based income and trading profit isn't it, the fee based income YoY for the quarter it has increased from Rs 88 Crore to Rs 95 Crore and if you put together the whole fee based income, it has come down by about Rs 5 Crore from Rs 298 Crore to Rs 293 Crore, 5 Crore difference and this is very marginal. We will try to see that it will increase in this quarter, but you know if the credit once it picks up then the processing charges and all these related charges will increase, fee based income will increase.

Amit Rane - I Wealth Management - Mumbai

Right, sir that is what I was not able to understand because we have grown the loan book by 12% at least fee should have grown by 10% to 12%.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes, it is not only the processing charges, there are other commission aspect like DD charge and all that now that RTGS have almost conquered the remittance business these charges are likely to dwindle further.

Amit Rane - I Wealth Management - Mumbai

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Ok, Thank you.

Geetha - Moderator

The next question comes from Mr. Subhankar Ojha from Kolkata, SKS Capital.

Subhankar Ojha –SKS Capital - Kolkata

Hi morning sir. One data point wanted to know the quantum of fund that you still have with RIDF and what is the book there and how is it going to come down over the years?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

RIDF as of now it is Rs 1976 Crore that is as of December 2014. It has further come down in this first month of this quarter by about Rs 50 Crore. I think by March we will be somewhere near Rs 1850 crore compared to the quarter 2013 Q3 it was Rs 2737 Crore so for one year we have reduced it by Rs 761 Crore I think going forward it will come down and yield also is increased yields has gone up from 4.56 to 4.77.

Subhankar Ojha –SKS Capital - Kolkata

4.77 is the current yield?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes current yield is 4.77, last year the December yield was 4.56.

Subhankar Ojha –SKS Capital - Kolkata

What is the guideline for 2016?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

It may reach about 5% or maybe at 4.9%.

Subhankar Ojha –SKS Capital - Kolkata

I am saying sir the quantum reduction for fiscal?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Quantum reduction I think by March it will be another 100 Crores from December that's all.

Subhankar Ojha –SKS Capital - Kolkata

Alright sir, That's all. Thanks.

Geetha - Moderator

The next question comes from Mr. Chinmay Desai from Mumbai Annual Share and Stock Broking Private Limited.

Chinmay Desai - Annual Share and Stock Broking Private Limited - Mumbai

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Sir could you give me a breakup of the provisions?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Provisions you want quarter-to-quarter or nine months period?

Chinmay Desai - Annual Share and Stock Broking Private Limited - Mumbai

Just the quarter the NPA provision?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Excluding tax the provision for this third quarter was Rs 78.88 Crore for the third quarter last year it was Rs 40.40 Crore and tax element this quarter, it was -2.57 Crore last year third quarter was +21.65 Crore so the breakup of these provisions there are four major heads one is NPA. NPA provision for last year it was Rs 23.44 Crore, it has gone up to Rs 82.34 Crore so there is a major item then provision for fair value has also gone up by from negative Rs 0.39 Crore to Rs 12.53 Crore then standard advances provisions last time it was Rs 12.87 crore, this time it is negative by Rs 3.11 Crore and depreciation investment last time it was Rs 4.77 crore, this year it is negative Rs 15.81 Crore so all put together this year it is Rs 78.88 Crore last year it is Rs 40.40 Crore as far as tax is concerned we got the benefit in account of write-off and also the additional provision for NPAs which made the tax provision negative by Rs 2.57 Crores. Hope I answered? Nine months period the provision were almost from Rs 240 Crores it got reduced to Rs 218 Crores tax element last year it was Rs 128 Crores this year for nine-months period it is Rs 48.51 Crores so total as against last year's Rs 368 Crores this year Rs 266 Crores.

Chinmay Desai - Annual Share and Stock Broking Private Limited - Mumbai

Sir also could you give me in the movement of NPAs could you give me the breakup between the write-offs and recoveries and upgrades?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

See as of the beginning of the quarter the NPA was Rs 1060 Crore .As of December 31, 2014 addition was to the extent of 282.98 Crores then recovery as such is around Rs 13.60 Crore and closure and closure by sale of assets comes to Rs 101.53 Crore then upgradation Rs 54.12 Crore.Total comes to Rs 169.25 Crore and there was a write-off of Rs 120.42 Crore and with this the total recovery comes to Rs 289.69 Crore so the final gross NPA figure was Rs 1054.17 Crore.

Chinmay Desai - Annual Share and Stock Broking Private Limited - Mumbai

Sir on cost to income how are we looking at it considering that we are in the expansion mode how are you seeing the cost trending I know that this quarter was in exception in terms of employee cost but other than that how are you seeing this item trending as such?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

I told you know the cost to income ratio one factor is employee cost and various other cost also but this employee cost has dragged up the cost to income it is now 54.12% for the nine months period ended December 2014 and I think going forward there will not be much aberrations it will come down definitely. By expansion mode I do not think cost to income ration will go up this main item of employee cost increase has dragged it up.

Chinmay Desai - Annual Share and Stock Broking Private Limited - Mumbai

So you see this being around 54% as such more or less?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes, I think it will come down to around 48% to 49% for the standalone quarter and cumulatively it will be somewhere near 51% or 52%.

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Ok sir, Thank you very much.

Geetha - Moderator

Participants who wish to ask questions may please press "*" "1". The next question comes from Mr. MP Mahesh from Mumbai, Kotak Securities.

MP Mahesh – Kotak Securities - Mumbai

Good afternoon Sir. Just a couple of questions; can you just tell us why is your cost of funds not declining?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

We are managing it is not increasing. In the sense we had not reduced our one year interest term deposit rate from 9% so far. It was constant in almost about six to seven months and recently we have taken steps to reduce the interest rates mainly on one year term deposit and above and we have reduced it from 9% to 8.75% and I think this will start giving results and our cost of fund should come down.

MP Mahesh – Kotak Securities - Mumbai

Second question is on the tax rate again was not the benefit of this write-offs removed in the previous taxation on what basis are we taking because you would have already made some provisions against your outstanding stock of loans right?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

It is right. See up to last the six months period the write-offs were to the extent of Rs 77.45 Crore This quarter it was Rs 120.42 Crore write off. This gave us the benefit. plus the additional incremental provision for NPA is around Rs 82 Crore this also gave us the benefit and in fact tax benefit for Q3 comes to around Rs 69 Crores and cumulative tax comes to around Rs 44 Crore and that is why we got the benefit of the reversal of tax to the extent of Rs 2.57 Crore.

MP Mahesh – Kotak Securities - Mumbai

My question was just on what basis because as we understand this taxation on write-offs, the earlier benefit was that you could have made provisions on the loans and when you make a write-off you again take a tax benefit on the same set of loans but we were to understand that this kind of provision was removed in the previous budget wherein you can take it on the outstanding stock only and not on the write-offs that you do because otherwise you get a dual benefit on the investing stock of loans, just trying to understand on what basis have you taken a write-off benefit?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

See the asset sale what happened is we sold the assets to the extent of Rs 221 Crore and for a value of Rs 115 Crore. There was provision shortage of around Rs 112 Crore which we have written off by, as far as your question is concerned there is a matter of debate on the interpretation of the Supreme Court decision and we have taken our tax consultant opinion on that and we are eligible to continue to claim reduction under both the sections.

MP Mahesh – Kotak Securities - Mumbai

But wasn't this clarified in the budget?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

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No. In the earlier one Supreme Court decision over there, thereafter small modification was made in the budget but there is an interpretational issue on that still continuing.

MP Mahesh – Kotak Securities - Mumbai

The next question is on the retail side have you reclassified your numbers because last quarter your other retail loans in the presentation was about 12% this quarter it is down to 5%?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

In the analysis is it?

MP Mahesh – Kotak Securities - Mumbai

Yes and also correspondingly if you could tell us how much is the gold loan portfolio both in the agri side and the retail portfolio?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Loans to agri comes to around Rs 2277 Crore and other gold loan comes to around Rs 200. crore So total comes to Rs 2477 Crore. This is as far as the retail and as I told the retail advances are increasing as far as your question of that 5% to 6% I have to check up I do not know which one you are referring?

MP Mahesh – Kotak Securities - Mumbai

Last quarter if you look at the presentation other personal loan shows 12.3%,if I look at this quarter other personal loans which is slide #14 shows 4.6% whereas in the previous quarter it was 12.3%?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Let me check up there are no much aberrations, may be the classification was wrongly done we will correct it.

MP Mahesh – Kotak Securities - Mumbai

Sure sir that will be all thanks.

Geetha - Geetha - Moderator

The next question comes from Mr. Chetan Vadia from JSP Securities Private Limited, Mumbai.

Chetan Vadia - JSP Securities Private Limited - Mumbai

Sir my question is are you working in the initial openings remarks you have aggressively expanding the branch network so are you working on any kind of a two to three year target of the number branches do you want to have by end of March 2015 per se?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes. Now this year we are targeting about 75 this we want to have pan India presence more and we will be working on that and we will be opening more branches say about 75 plus may be about 100 branches in the year 2015-2016. So I think this is the plan which we have for the next year now and then we will be studying our branches which have been opened. Based on their results and if the business is good then we will accordingly plan for 2016-2017 itself and so on.

Chetan Vadia - JSP Securities Private Limited - Mumbai

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Okay and similarly if you have any target for in terms of size of your balance in terms of deposits and advances that you also have by March 2015 and 2016?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes we have been targeting the Rs 80000 Crore of turnover for 2015, Rs 80000 breakup is Rs 47000 crore deposits and Rs 33 000 crore of advances and for 2015-2016 the it is around 20% growth .

Chetan Vadia - JSP Securities Private Limited - Mumbai

Okay and sir lastly in terms of the advances, which is the largest industry where we have had the more percentage in your total advances right now.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

No it is squarely spread across the industries. There are no such concentration except earlier we had in the power sector otherwise there are no concentration we are equally distributing our exposure to all the industries.

Chetan Vadia - JSP Securities Private Limited - Mumbai

Last question sir if you were to near five and just have been for which were bullish at this point in time in terms of your advance of growth for the one year time in which industry will that be?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

No we have not targeting. We are going account-by-account by seeing the health of the account we are expanding. We are not targeting on particular industry and as I said our main thrust is on retail only, corporates we want to digress from aggressively going. We will be studying the quality of the account and the rating of the account in any sectors and then only we will be taking our exposure in these Sectors.

Chetan Vadia - JSP Securities Private Limited - Mumbai

Alright sir, Thank you very much all the best.

Geetha - Moderator

Next question comes from Mr. Keshav Shah from Mumbai, Anand Rathi.

Keshav Shah - Anand Rathi - Mumbai

Thank you, good morning sir. Sir we all know that the economy is more or less likely to improve over the next couple of years and from a strategic perspective how do you visualize Karnataka Bank's growth rate. I know you have target but from strategic perspective we have been more focused on retail growth do you think with the economy may be improving we will be doing more of the corporate advances as well and if yes what sectors would you be targeting what was your needs there?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes, I have just replied this question. As far as expansion in corporate sector is concerned, we are not targeting any sector per se we are targeting on the specific accounts depending on the rating of the accounts. If the rating of account is favorable then we will go for those advances and we may take maximum exposures say up to Rs 50 or Rs 75 Crore if they are good accounts. Now that there is a methodology of RBI side that is CRILC we can watch the health of the account of any borrowers above Rs 5 Crore it is very convenient to us and by looking at that we can see whether that account is performing or not, even in the performing sector also. With this carefully we will putting our steps forward in corporates otherwise I cannot say that I will be concentrating on a particular sector we will be watching the corporates and then expand our business otherwise our mantra is to see that we expand retail sector that is evident by the shift of our percentage from corporate to retail.

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Keshav Shah - Anand Rathi - Mumbai

Your retail book also includes the SME piece right?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes any advances below Rs 5 Crore.

Keshav Shah - Anand Rathi - Mumbai

Okay, so the other question consequently is that our CD ratio there still some leeway to increase and when do we see that trending upwards currently on a consistent basis because if I am trying to understand yield on advances spend would not improve from here just a bit on a mixed range?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

So yield on advances is not improving because of the competition. Every borrower wants to avail the advance at a lesser rate and sometimes in this competitive world we may have to reduce the interest rate on these advances and even though the rates are dependent on the rating of the borrower sometimes we may have to oblige, this makes the yield on advances come down and once the gross NPA is under control or say if it is brought down to 2.75% level definitely yield on advances will go up because we may recover most of the interest, which are blocked in those accounts. So I think we have not changed our base rate since last two years and with this we could retain this yield on advances suppose if we had reduced the base rate downwards, this yield on advances would have gone down further. So all these factors cumulatively has kept our yield on advances to a level of last year by this time it was 12.39% cumulatively now it is 12.06% and throughout this year, there were no scope for advances and the growth in advances September is almost at 5% from the position as of April and now it is picking up and we have surplus funds this also had contributed in having a lesser yield on advances. So I think going forward definitely even the credit goes up we have a leverage we can even go up to 73%, with all this given resources and now we are picking up I know this 66% is not a good average CD ratio we will definitely see that it goes up and touches at least say 68% to 68.5% or to 69% by March and going forward next year it will be around 72%.

Keshav Shah - Anand Rathi - Mumbai

Thank you Sir.

Geetha - Moderator

The next question comes from Ms. Rithika Dua from Mumbai, B&K securities.

Rithika Dua - B&K Securities - Mumbai

Good morning sir. Sir I actually missed if you had mentioned your NIM target for FY15 if you could just share that again?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes FY 2015 end is not too far and I have been all along projecting at 2.9% I think 2.9% may not be possible we are at 2.4% may be at around 2.6% to 2.7% provided we show some robust recoveries and we are targeting 2.7% to 2.8%.

Rithika Dua - B&K Securities - Mumbai

Okay so 2.7%, 2.8% incase if we have robust recoveries otherwise you think?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Otherwise it will be hovering around 2.5% to 2.6%.

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Rithika Dua - B&K Securities - Mumbai

Sir if we just let the recovery be sir this 10 to 15 basis points expansion without recoveries which we are expecting, sir any particular lever which we think can contribute to that?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Yes retail portfolio only and whatever surplus funds which we had invested at say 8% or 8.5% will be yielding at around 12% to 12.5% this will definitely increase our income and NII also and NIM.

Rithika Dua - B&K Securities - Mumbai

Sir just one last question sir what is the restructuring pipeline?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

No restructuring in the pipeline as of now.

Rithika Dua - B&K Securities - Mumbai

Sir any particular can we take it positively in the sense because a lot of private banks are saying that they have a big pipeline in Q4 given that the RBI dispensation is getting over?

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

My portfolio does not have such accounts. I think in the pipeline for March 2015 I do not look at any restructuring rather some of the restructured accounts may go out of this portfolio because of good recoveries.

Rithika Dua - B&K Securities - Mumbai

That is it from my side. Thank you.

Geetha - Moderator

Participants who wish to ask question may please press "*" "1". Sir at this moment, there are no further questions in the queue.

P. Jayaram Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited

Thank you very much for participating in this conference call. We will certainly assure you that we will give better results for March 2015. Thank you very much.

Geetha - Moderator

Thank you very much sir. Ladies and gentlemen this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel. And have a pleasant day.