"Karnataka Bank Q3 FY20 Earnings Conference Call"

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	MR. VADIRAJ K A – GENERAL MANAGER
MODERATOR:	**MR. AALOK SHAH – MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Karnataka Bank Q3 FY20 earnings conference call hosted by Monarch Networth Capital Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aalok Shah from Monarch Networth Capital Limited. Thank you and over to you, sir.

Aalok Shah: Good evening to all. On behalf of Monarch Networth Capital Limited, we welcome you to Karnataka Bank's Q3 FY20 Earnings Call. From the management's side, today we have with us the MD & CEO – Mr. Mahabaleshwara M S, the COO – Mr. Balachandra Y V, the CFO – Mr. Muralidhar, and other senior management team. Without taking much of your time, I would now handover the call to MD sir for his opening remarks followed by Q&A session. Over to you, sir.

Mahabaleshwara M S: Good evening to all of you and also welcome to the Q3 earnings con-call of Karnataka Bank. I am Mahabaleshwara, MD & CEO of the Bank. I am joined by COO - Mr. Balachandra and CFO - Mr. Muralidhar Krishna Rao and also one of General Managers - Mr. Vadiraj K A. First of all, wish you all a very Happy New Year 2020. The previous calendar year 2019 witnessed Sensex at a record high, but sentiments were not matching. That was something unusual also. But nevertheless, if you look at the macro-economic conditions, the slowdown was quite evident as could be seen from the lowered GDP numbers, increased CPI and WPI numbers as well as the lowered credit growth in the banking system.

But for us, in Karnataka Bank, even though it was really a tough quarter, eventually it turned out to be a good quarter. As could be seen from the numbers that we have already put in the public domain, which we have already submitted to the stock exchanges as well as the detailed analysis is also published on our website, you might have observed that operating profit has gone up by 25.33% during this quarter from Rs.400.37 crores to Rs. 501.79 crores. This was mainly on account of a decent interest income growth at 7.07% and a robust trading profit growth at 69.42% and a very-very sustainable fee income growth of 13.65%. As a result, our total income grew by 11.45% and the expenditure was also very well-contained, and expenditure grew by 7.52%. This sums up the overall operational efficiency of the bank.

However, since the operating profit was decent, certain NPAs especially in the NBFC sector, we had recognized about Rs.247.36 crores as the fresh NPA and the MSME around Rs.58.22 crores, agricultural sector we have recognized NPAs at around Rs.80.58 crores, hospitality sector around Rs.18.16 crores. All put together, the fresh slippage was in the range of Rs.637.54 crores. As a result, the slippage ratio went up to 1.23% but there was a reduction to an extent of Rs.454.35 crores. The net slippage was Rs.183.19 crores as against September 2019 net slippage of Rs.156.74 crores. But we had provided more during this particular quarter. One year back, our provision during the quarter was Rs.184.35 crores and in September 2019, it increased to Rs.291.45 crores, and this time, Rs.303.67 crores of fresh provisions especially for the NPA was provided. As a result, credit cost also went up to 0.55 for this quarter.

In the previous concall, we had expressed the intention of improving the provision coverage ratio and now it is further improved to 59.34% from the 57.20% about a year back. Going forward, by March 2020, most probably we will be in a position to have a PCR of above 60%. We also said that the total expenditure was contained and that is reflected in the cost-to-income ratio which was at 49.28% about a year back, now it is at 44.85%.

We had Rs.588.37 crores of SMA2 during September '19 and it has slightly moderated to Rs.479.31 crores during the current year. Security receipts, some recovery is there. It was at Rs.434.99 crores about a year back. Now it is at Rs.390.52 crores.

The growth numbers, the turnover grew by 7.83%, deposits 9.54%, and advances grew by 5.68%. One interesting thing about the advances is that if you look at the retail advances growth, i.e., less than Rs.5 crores, it went up by 12.62%. The year-on-year growth in the retail portfolio is 12.62% and in the mid-corporates, i.e., Rs.5 crores to Rs.100 crores, the growth rate is 10.48%. This being the case, the overall advances growth was at around 6% only. That is mainly on account of the fact that we have been reducing our exposure to the corporate clients. More than Rs.100 crores, there is a degrowth to an extent of 9.51%. So, a robust growth in the retail and mid corporate, and this is as per our plan, and a degrowth in the corporate advances has eventually ended up in the advances showing 5.68% growth.

CD ratio terminal figure is at 76.95%. CASA is at 27.39% of the total advances, and during the current year, the year-on-year growth in the CASA is 12.61%. Yield on Advances remained at the same level as that of last year. Last year, it was 9.46% yield on advances. Current year, it is 9.45%. Cost of deposit also we have been able to contain. Last year, it was 6.03% and now it is at 6.02%. Restructured advances which was at Rs.901 crores has now come down to Rs.503.74 crores. We had 297 number of borrowers who were externally rated. This year, it is 328 but amount-wise, about a year back, it was Rs.19,137 crores. Now, it is Rs.17,943 crores. This explains the reasons for degrowth in the corporate advances that I had mentioned earlier.

Last time also, some of you wanted to know about the stress in the ‘BB’, ‘B’, ‘C’, ‘D’ rated accounts. As mentioned therein, in the ‘D’ rated external category, 1258 is the present balance outstanding. Of that, Rs.713 crores are NPA and number of accounts is 13. In this ‘D’ category, apart from these Rs.713 crores of NPA, we also have a few accounts under SMA2 amounting to Rs.73.17 crores. Under ‘C’ category, our exposure is Rs.26.43 crores i.e., only 1 account. So, the entire amount is treated as NPA and there is no SMA2 under the ‘C’ category. Under the ‘B’ category, the exposure is Rs.658.50 crores. Of that, Rs.95.72 crores are treated as NPA, and as of now, not a single account is under the SMA2 category. Under the ‘BB’ category, we have Rs.1801.85 crores. Of that, Rs.87.40 crores are treated as NPA and Rs.10.25 crores is under the SMA2 category. Under ‘BBB’ category, Rs.1789.25 crores is the outstanding. The NPA in that category is nil and SMA2 also nil. If you look at the ‘BBB’, ‘BB’, ‘B’, ‘C’, ‘D’, the NPA is at Rs.922.25

crores and the SMA2, i.e., under 'BB' and 'D' category, Rs.83.42 crores. This is about the business numbers as well as the earnings.

As far as our transformation initiative is concerned, we have started digital sanction of the loans. In the home loans, auto loans, and personal loans, the Bank has now equipped itself with the capability of digital sanction of the loans which happens in just 5 to 20 minutes. That is the capability that we have acquired through our Digital Centre of Excellence which we started in Bengaluru, and we are going to extend this digital sanction process to MSME portfolio also. With that, further improvement especially in the staff-related improvement is being contemplated also.

As far as productivity is concerned, we have 845 branches as of December 2019, total number of employees is 8240, and the operating profit per employee was at Rs. 13.58 lakhs about a year back has now improved to Rs.15.35 lakhs. Operating profit per branch which was at Rs.135.78 lakhs about a year back now improved to Rs.149.73 lakhs. Business per employee which was at Rs.14.13 crores about a year back has now improved to Rs.15.32 crores, and business per branch which was Rs.141.26 crores about a year back has now improved to Rs.149.43 crores. And, Cost-to-Income Ratio has also improved. These are the points which I just wanted to share with you and any other points that you want clarifications, we will be happy to give those clarifications.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.

Participant: Sir, how would you explain fairly reasonable growth in your mid corporate book?

Mahabaleshwara M S: As I said, we have been focusing on the retail and the mid corporates. In the mid corporates, the growth rate is 10.48% and going forward, we will be able to sustain this growth because the lining up of the new proportions is very strong. That same growth in the retail sector – as of now, we have been able to achieve 12.62%. This also we will be able to sustain. I think, overall, our advances for the current year, we will be poised to have a double digit growth – overall advances portfolio.

Participant: Also, would you explain decline in your corporate loan book in the last few quarters?

Mahabaleshwara M S: There, especially our NBFC portfolio exposure has come down and other fresh exposure more than Rs.100 crores we have been very selective. That is the reason the overall exposure to the corporate sector has a degrowth by 9.51%. If you look at the total exposure, under the corporate sector, we had 29.73% of total exposure under the corporate sector as of December 2018. Now it is at 25.73%. Similarly, in the mid corporate, i.e., Rs.5 crores to Rs.100 crores, the exposure was 26.27% about a year back. Now, it has slightly improved to 27.46%. Similarly, in the less than Rs.5 crores, i.e., the retail sector, our exposure was 43.50% about a year back. Now, it has improved to 46.34%. Going forward, by March 2021, our aim is to have 50% under the retail, 30% under the mid corporate, and bring down the corporate exposure to a level of 20%. So, 50%, 30%, 20% is the goal by 2021 March as against the present level of 46.34%, 27.46%, and 25.73% respectively. And to sustain this, we have made fundamental changes across India at our all 14 Regional Offices. We have placed Executive level RSEs (Regional Sales Executives) in all the 14 Regional Offices. A dedicated Sales Team is also provided to the RSE and that is the reason this type of shift you are seeing. This is mainly in tune with our transformation agenda. Hereafter, we will be emerging as a strong retail and mid corporate advances bank rather than focusing on the corporates. Corporates also I am not saying I am totally withdrawing from that. Around 20% of the exposure would be confined to the corporates but we will be very choosy and selective while taking that type of exposure.

Moderator: The next question is from the line of Bhavik Shah from B&K Securities. Please go ahead.

Bhavik Shah: Sir, can you highlight the breakup of slippages again?

Mahabaleshwara M S: Especially in the NBFC sector, we had Rs.247.36 crores. I believe you know which are those accounts. I need not repeat that here but whatever that in the industry those accounts are making buzz, and all those 4 accounts we have recognized the stress and treated it as NPA as per the IRAC norms. In the MSME sector, some restructuring all those things are happening in that sector as per the government decisions and all. There also, we had observed certain stress, Rs.58.23 crores. Agriculture also, some stress we have observed. Agriculture around Rs.80.58 crores, hospitality sector around Rs.18.16 crores, and in some residential builders, exposure is very small; Rs.10 crores, Rs.1 crore, Rs.4 crores like that – around Rs.18 crores stress is also recognized there. Those are the major sectors.

Bhavik Shah: Sir, just to clarify, 2 companies in NBFC would be from the same parentage group, right?

Mahabaleshwara M S: I will restrain from making any account-specific comments. Our overall NBFC exposure is also now around 14%. At one time, it was at 16.35%. All other NBFCs, even the December interest rate is also duly serviced. So, in the remaining book of 14%, we do not have a single stress account because of good promoters and government-backed NBFCs. So, I think this portfolio would eventually be a promising portfolio and a stress-free portfolio hereafter.

Bhavik Shah: Sir, under 'BB' and below book, there was an export account around Rs.60 crores which was stressed. I just wanted an update. How is the account performing now? Has it already been slipped?

Mahabaleshwara M S: That is what I said. Under 'BB', we have 3 accounts which are treated as NPA and SMA2 is Rs.10.25 crores. So, already NPA is Rs.87.40 crores under the 'BB' category.

Moderator: The next question is from the line of Satish Kumar Sharma from Choice Broking. Please go ahead.

Satish Kumar Sharma: Sir, my question is on net interest margin. Bank has set around 3% net interest margin target.

Mahabaleshwara M S: By March 2021 I had said. We will be still holding onto that number. By March 2020, it may slightly improve because as of now, we are at 2.83%, i.e., December '19. So, for the 9 months ended, it would be 2.82%. So, we may be somewhere in between 2.8% and 2.9% for the current year and March 2021, we have definite plans to take it to a level of at least 3%.

Satish Kumar Sharma: Sir, we have noted that cost of deposit has surpassed 6% over the last 2 quarters. Any measures to rationalize the cost of deposit?

Mahabaleshwara M S: The cost of deposit September 2019, it was at 6.17%. Now it has come down to 6.02%. In fact, December 2018, it was at 6.03%. Going forward, the cost of deposit would further moderate in our favor because we had subsequently reduced the rate of interest on the term deposit. Secondly, you might have observed that a significant growth in the CASA. CASA is growing at 12.61%. We would definitely sustain this growth. As a result, overall, the CASA percentage – about a year back, it was at 26.65% – now slightly improved to 27.39%.

These two factors we are expecting that it would act in favor of us in further reducing the cost of deposit.

Moderator: The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, I just wanted to know on the asset quality. What would be the run rate of the slippages are we expecting for the 4th quarter as well as for the next fiscal? And what is the target for the gross and net NPA by the end of FY20?

Mahabaleshwara M S: Next quarter, the slippage as per our internal assessment would be lower than what the slippage we had during the current quarter. As far as the gross NPA and net NPA is concerned, definitely it would be less than what it has been for the current quarter. The exact number may be too early to tell but it would be definitely less than the present numbers. Going forward, our aim is to bring down the NNPA to a level of around 3%. It may take about a year or two from now. That would happen because why I am optimistic is that our intention is to improve the PCR. As I said, by March 2020, our PCR would be above 60%. We are inching towards it as present it is 59.34% and we would further improve that.

Sneha Ganatra: Your target which you are saying ROA of 1% by FY21 is still intact or any changes?

Mahabaleshwara M S:I am still holding onto that. Let me be optimistic because some of the fundamental changes we have done have started reflecting in our operational efficiency.

Sneha Ganatra: And the rationale is because of the operational efficiency or any other more on the decline in the credit cost also?

Mahabaleshwara M S: There is a shift in our advance’s portfolio and the advances delivery efficiency has also improved. I will just quote you one example. Look at the housing loan delivery system. Earlier, it was taking about 7 days to give a credit sanction. Now, as I said, in the digital era, it is happening in 20 minutes, of course, excluding the valuation and the legal opinion. That may take another couple of days. But the manpower required is now 50% of the earlier manpower. That would definitely add to the operational efficiency across India. And I am not confining it just to one sector. Now, we have started this digital sanction to the personal loans, auto loans, i.e., the car loans, and very shortly, maybe within 1 month, we will be extending this facility to the MSME loans also because around 20% to 23% of our total portfolio is MSME. So, that would definitely get benefitted by this type of automation. That is the reason the shift in this particular thing.

Now our Bank has also repositioned itself towards the sales and marketing. You might have observed that our staff getting into the market, canvassing the business, all such things. That type of change in the overall bank that is being quite visible, and lot of lead generations are happening in all the sectors and lead conversion everything is on the expected line as of now.

Sneha Ganatra: What is your growth outlook for the next fiscal? Because the current quarter, the growth was being a little bit negative.

Mahabaleshwara M S: Because of this shift, especially in the advance's portfolio. Definitely, overall it would be in double digits.

Sneha Ganatra: And my question on the IBC accounts, could you share your exposures and what are the recovery status over there?

Mahabaleshwara M S: Resolutions are happening which are not under our control but one account with an exposure of Rs.68.76 crores, I think the resolution is very much within our vicinity and in this case, I am not expecting any haircut also. That is great news, but this should happen by March 2020. Rest of the things I am not sure what is in the pipeline. If it happens, definitely it would help in improving our bottom line also because majority of these accounts we have already provided fully.

Sneha Ganatra: What is the total exposure in the IBC account would be?

Mahabaleshwara M S: Around Rs.1284.91 crores is the total exposure under the IBC. You didn't ask the 2nd question, how much is the provision held there?

Sneha Ganatra: Yeah, I was about to ask this question only.

Mahabaleshwara M S: For Rs.1284.91 crores, around Rs.1049.12 crores provision we have.

Sneha Ganatra: In this quarter, can you give me the breakup of how much is your recovery upgrades and write-off?

Mahabaleshwara M S: That, right now I don't have. Subsequently I will share because I have already given you the provision held and all such things. We are further strengthening our provision in these accounts. So, whenever we are getting back that, that would come in big amount to the bank.

Moderator: The next question is from the line of Sudheer Mahajan who is an individual investor. Please go ahead.

Sudheer Mahajan: Congratulations on a nice result.

Mahabaleshwara M S: We will try our level best to come up to the expectation of all of you. Some fundamental changes we have made. I am seeing the result of those changes.

Sudheer Mahajan: Everything else Karnataka Bank does is very good for all stakeholders – the depositors, the employees, everyone – but somehow, the shareholders have been let down.

Mahabaleshwara M S: They will support us, I am optimistic.

Sudheer Mahajan: We are supporting you, there is no doubt about it. You are doing a wonderful job.

Mahabaleshwara M S: And they will also get huge reward in due course.

Sudheer Mahajan: Sir, some of these cases which last time you were talking about including your NPAs which you had provide for the finance companies and NBFCs, at what level have you provided for? Secondly, you had a case of Sintex where the ICA had been signed. What is the update on that? And you had another big whale of NBFC account of about Rs.650 crores and you were saying that they were planning to clear it back by about March. Is it on track?

Mahabaleshwara M S: No exposure of Rs.650 crores to any NBFC in our book. That is not a correct statement because we had not lent more than Rs.499 crores to any of the NBFCs. And as I said, we have thoroughly identified the stress in the portfolio and that is recognized and as per the IRAC norms, the provision is also provided upfront. The rest of the NBFC portfolio, this now constitutes around 14% of our portfolio. We are fully convinced about their ability to service the debt and that is taken into account, and as of December also, it is fully serviced. And one of the good old NBFCs, i.e., IL&FS related, we have provided 100%, for our credit exposure and for the investment exposure of around Rs.25 crores also we have fully provided for during this quarter. That is the reason when the operating profit was very good, you are seeing just a net profit of Rs.123 crores. Compared to September 2019, Rs.105.91 crores, it was slightly better. And salary provision also, whatever the IBA has offered at 12%, full provision we have made. The future provision requirement we have loaded during this Q3. That is why we are optimistic about Q4 but something sudden may happen in the industry on which we may not have any control, but as of now, we are very closely watching and preparing ourselves for that type of eventuality.

Sudheer Mahajan: About your taxation level, we are doing around 33%. Have you done anything to bring it down and what is the rationale for not doing it coming to the lower level?

Mahabaleshwara M S: There, as per that law, we have to take decision either during this year or the next year. Now, we are closely evaluating that. We will take a decision because I have to go to the appropriate committee. Whether to give effect to this or to the next year, whatever is in the best interest of the bank, we will be able to take the decision. There is no need for hurry because time is there. So, at appropriate time, definitely we will take a decision on that because all the options have to be evaluated and we are now in that process because I have to take into confidence the central statutory auditors, what is their view, and all such things that consultation process is going on. We will take a call on that.

Sudheer Mahajan: Another question is, how many accounts of more than Rs.50 crores you have now?

Mahabaleshwara M S: The details of number of accounts above Rs.50 crores, we don't have it right now, but in the category of Rs.5 crores to Rs.100 crores, we have 4090 accounts. Above Rs.100 crores, there are 246 accounts. We will carve out the number of accounts above Rs.50 crores and share the same with you.

Sudheer Mahajan: More than Rs.100 crores, you have got 200 odd accounts. That comes to about Rs.20 odd crores. That nearly about 40% to 50% of your book is in these 200 odd customers.

Mahabaleshwara M S: Yeah. That means, the outstanding as I said, this is Rs.14,021 crores and that constitutes 25.19% of the total loan book – above Rs.100 crores.

Sudheer Mahajan: But is it not a little high risk for a bank like us?

Mahabaleshwara M S: That is why we are reducing it. This was at 29.73% about a year back. Now it has come down. That is why I said, going forward, we will be further reducing it. And risk in this portfolio but for 1 or 2 accounts with an exposure of somewhere around Rs.100 to Rs.150 crores. All others are in the very performing category itself, not even under the SMA2.

Moderator: The next question is from the line of Chitlay Upadhyay from Abakkus Asset Manager. Please go ahead.

Chitlay Upadhyay: Sir, we have reduced our exposure in corporate. Has it been a mix of some prepayments and selling of the loan or is it just that we have limited our further disbursements to the existing or….

Mahabaleshwara M S: No selling of the loans. It was all recovery. And we have also prevailed upon some of the NBFCs for advance recovery also and to a certain extent, we have been successful. That was mainly in the area of the NBFC.

The other also, our earlier exposure, it was not for a longer period. It was all given mainly for a shorter period – 1 month to 12 months. On completion of that period, we didn't opt for the renewal. That was also one of the reasons. And fresh exposure, we are very choosy and selective.

Chitlay Upadhyay: Sir, on the existing corporate book, what would be the average tenure?

Mahabaleshwara M S: Average tenure, I think not more than 24-25 months. These are all short-term in nature. Only a few accounts like NTPC and 2-3 public sectors we had given for a longer period – 5 years, 10 years, like that. Otherwise, majority of these exposures are for a shorter period. We call it as short-term loans. So, average tenure could be around 2 years or 24-25 months.

Chitlay Upadhyay: Sir, also with this shift to 50%, 30%, 20% in retail, mid-crop, and crop, what changes do we expect in yield and credit cost on a steady state?

Mahabaleshwara M S: We have been very closely tracking this and that was one of the reasons why we made this shift. The yield on this particular portfolio was slightly above our comfort level, both in the retail as well as the mid corporate, and in the corporate, it was very much on the expected line in the sense the corporate short-term exposure when we took, it was just an option other than investing in the treasury, i.e., the investment. We preferred that we will go for this type of advances because I was at that time having an interest rate advantage of about 100 to 200 bps. That was the reason. Definitely here, the yield on advance is as per our expectation, and other than that, the benefit that I have is huge cross-selling opportunities of our various other products. That would definitely help us in improved fee income because all along our aim is to sustain the fee-based income. That is the advantage now we are reaping in that particular area. So, fee income also you might have noticed during the current year also, i.e., the current quarter, it is at around 13.65%. The 9 months period ended, it is at 20.26%.

Chitlay Upadhyay: Did I understand it right that there won't be much change in yield because of this but noninterest income will….

Mahabaleshwara M S: If at all even if it is there, it would be in our favor.

Chitlay Upadhyay: Same for credit cost and OPEX if you could mention?

Mahabaleshwara M S: Credit cost, of course, during this Q3, it is at 0.55. For the entire year, i.e., 9 months ended, it is already at 1.50%. We will try our level best to minimize this. It may not exceed that level. Of course, originally first 2 quarters, we were expecting it at below last year's 1.39%, but this year since we had recognized the stress mainly in the NBFC amounting to around Rs.247 crores, it has slightly gone up. And again, in this credit cost also, for the Q4, we have very little provision to be made for the migration of the accounts. Migration provision we call it as, i.e., migration from SS to DS category or to loss category. That type of provision we have almost front loaded during the first 3 quarters. That pressure is not there during this 4th quarter. So, definitely the credit cost will be well within whatever we had shown during Q3 of the current FY.

Moderator: The next question is from the line of Bhavik Shah from B&K Securities. Please go ahead.

Bhavik Shah: Sir, broadly, what kind of slippage guidance do you expect for next year FY21?

Mahabaleshwara M S: FY21 especially the credit growth would be in the range of 14% to 15%. So, this year, it could be double digit, 10% or 11% in that range. But as I said, this growth would come from the retail and the mid corporates. We would be very selective and choosy. That is as far as the credit growth is concerned. And FY21 our intention is to have the net NPA at around 3%. That also, we are properly planning in that direction. NIM, we have planned to take it to a level of 3%. ROA may be around 0.9% in that range. ROE definitely double digit, may be around 12% or so. A reasonable optimism we have for the year 2021 and of course going forward for 2022 also. It all depends on how the economy would behave in the ensuing 2 years. What we have planned is that you plan conservatively, work hard, and try to surpass the numbers that we have internally planned.

Bhavik Shah: Sir, 2 more questions. I understand you gave net NPA guidance of around 3%.

Mahabaleshwara M S: Yeah, I said 3.2% for 2021 I think. We will be definitely able to hold onto that.

Bhavik Shah: Broadly, how do we assess the stress still left in the corporate book? What kind of slippages do we expect?

Mahabaleshwara M S: Corporate book, the stress we have almost recognized. NBFC, I said whatever the corporate book I have, I don't see any account showing any signs of stress in the balance portfolio and other corporates also, I gave that number of around 200+ except a couple of accounts, maybe around 150 crores or so, stress is not being seen as of now.

And of course, we have put in strict monitoring and recovery mechanism also. In fact, as of now, daily morning huddle to review the stress in the portfolio. Stress in the sense, whether this account is showing any symptoms of further slipping to SMA0, SMA1, or SMA2 or further slipping to NPA. That type of review is happening daily under the leadership of COO, Mr. Balachandra, our credit monitoring department. We have credit monitoring hub at all the regional offices. That type of institutional mechanism we have put in place. So, that should help us to improve the quality of the advances also going forward.

Bhavik Shah: Sir, you mentioned a couple of accounts of Rs.150 crores are under stress. Can you broadly tell me which sectors do they belong to?

Mahabaleshwara M S: Infra.

Bhavik Shah: And sir, in our outstanding NBFC book, how many accounts would broadly be there?

Mahabaleshwara M S: Number of accounts is 55 but borrowers may be around 40.

Bhavik Shah: Sir, above Rs.100 crores, I mean.

Mahabaleshwara M S: Around 20-21 accounts above Rs.100 crores.

Bhavik Shah: Sir, these are like gold financier, asset financier, housing financier?

Mahabaleshwara M S: Public sector also we have, and of course, it is a mixed portfolio – mix of the private sector, public sector, activities also well diversified. So, I have every reason to believe that this is a healthy portfolio whatever that now we are having.

Moderator: The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Just 2 questions, sir. One is that you just said that with respect to one borrower which was having some coffee plantation and it looks like so far, they are doing well. How are they managing to pay or you think they are getting stressed?

Mahabaleshwara M S: Our exposure to that particular group is Rs.153 crores. Till date, they have serviced their debt and there is operation in their particular account also and we are in touch with them. I think they have also changed their business strategy and they have also assured to further reduce this exposure gradually, and as of now, there is no stress. Even if there is stress, hundred percent collateral security is there, but for the time being, there is no reason for us to believe that it would give any stress to us. We are closely watching that particular account.

Jai Mundhra: Sir, your gain on sale of investment, does it include the sale of treasury HTM book also?

Mahabaleshwara M S: Sorry, which investment?

Jai Mundhra: The treasury sales look very exceptionally higher.

Management: Yeah, that also includes the sale from HTM book.

Jai Mundhra: Any quantification, sir? How much you would have sold from HTM book? Just to understand that granularity.

Management: As per the extensive guidelines, the Bank has been preparing to sell even above 5% of the HTM book subject to disclosure. We have taken the guidance of that particular regulation and we have sold the securities from the HTM book also. Majority of this profit is coming from the sale of that security.

Moderator: The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Sir, firstly some bookkeeping questions. What will be the provisions on the SRs? The number you mentioned initially, is it including the provisions or is it the standard?

Mahabaleshwara M S: SRs outstanding, for Rs.390.52 crores of exposure, 21.38% provision we are having as of now.

Gaurav Jani: Secondly, I am looking at a number, correct me if I am wrong. The standard restructured book as of now, is it Rs.357 crores?

Mahabaleshwara M S: **No,** Rs.503.74 crores, standard restructured. It was at 901 crores about a year back, slightly come down to Rs.503.74 crores.

Gaurav Jani: I am looking at the 'D' rated book also. Would there be an overlap between the standard restructured and the 'D' rated?

Mahabaleshwara M S: Not only the 'D' rated accounts, even some of the recent MSMEs are also coming under this category. Not necessarily be the rated accounts only.

Gaurav Jani: Lastly, if I may squeeze one, our slippages barring the large accounts–you mentioned of Rs.247 crores are still at close to about Rs.400 crores. Could you quantify how much are from Karnataka and what is our expectation on the recovery going forward?

Mahabaleshwara M S: Right now, state-wise slippage I don't have. Please send an email. We will furnish it.

Moderator: As there are no further questions….

Mahabaleshwara M S: Shall we conclude?

Moderator: Yes sir.

Mahabaleshwara M S: Thank you all. We will strive hard to come up to the expectations of all the stakeholders. Once again, wish you a very happy 2020. We will perform during this year like a Twenty20 cricket game. Thank you one and all.

Moderator: On behalf of Monarch Networth Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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