



“Karnataka Bank Q3 FY’21 Earnings Conference Call”

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**MODERATOR: MR. AALOK SHAH – MONARCH NETWORK CAPITAL
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'21 Earnings Conference Call of Karnataka Bank hosted by Monarch Network Capital Limited. As a reminder, all participant 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 Network. Thank you and over to you sir.

Aalok Shah: Good evening to all. On behalf of Monarch Network, we welcome you all for this Earnings Concall of Karnataka Bank. Today, we have with us the entire top management team of Karnataka Bank, starting with MD & CEO -- Mr. Mahabaleshwara M.S.; CFO -- Mr. Muralidhar K Rao; COO – Mr. Balachandra Y V and other senior management team.

Without taking much of your time I would hand over the call to Mahabaleshwara sir for his opening remarks followed by a Q&A Session. Thank you and over to you sir.

Mahabaleshwara M.S. Thank you and good evening to all of you. First of all, let me wish you all a very happy new year 2021. I welcome you all to the earnings con-call of Karnataka Bank for Q3 FY'21. Friends, I am happy to flag off the banking sector Q3 earnings season with a good result. Yes, it was a tough period, but encouraging results in tough time. As you all know, the entire industry is affected by COVID-19 pandemic, but the economic prescription of Karnataka Bank for COVID-19 pandemic was "Conserve, Consolidate and Emerge Stronger."

At the very early onset of COVID-19 pandemic during the month of February/March, we had taken abundant precautionary measures mainly to ensure that we would have a very smooth sailing during this difficult period. That is why we had focused more on bottom line. Of course, in some of the areas we were able to safeguard our top line as well. So, this has abundantly reflected in the first two quarterly results and Q3 results are something like further consolidating our position. As you all know, net profit has shown a 9.94% growth during these three months period at Rs.135.38 crores from Rs.123.14 crores about a year back, whereas for the nine months period of the current year, it is at Rs.451.20 crores with a growth rate of 11.55%. Last year that is the year ended March '20 for the entire year our net profit was Rs.431.78 crores. So, this year we had already crossed that; it is at Rs.451.20 crores.

Operating profit for the current quarter has slightly come down by 12.72% to Rs.437.97 crores, but for the nine months period y-o-y, there is a growth rate of 27.68% at Rs.1,615.44 crores from Rs.1,265.23 crores. The main reason for the lower operating profit especially during the Q3 is mainly due to lower trading profit and higher superannuation benefits. Otherwise, for the nine months period it has grown at a rate of 27.68%. Interest income has almost remained flat, in fact, there is a slight decline by 1.61% for this quarter, and for nine months period it is down by just 0.43% whereas interest expenses have significantly come down by 11.88% during the current quarter at Rs.981.45 crores against Rs.1,113.80 crores about a year back. And for nine months period interest expenses has come down by 7.31%. NII has shown a healthy growth at 20.94% to Rs.614.05 crores from Rs.507.75 crores.

For the nine months period ended NII has shown a growth of 14.85%. Other income has come down because trading profit has also come down whereas the total income is slightly down during this quarter by 6.27% to Rs.1,868.62 crores. However, for the nine months period, total income is up by 4.33%. Total expenditure is down by 4.10% during these three months period to Rs.1,430.65 crores and for the entire nine months period, our expenditure is down by 2.35% to Rs.4,321.33 crores. This is mainly because of the reduction in the interest expenses, as I said, which is at 11.88% and also other miscellaneous expenses reduction, the cost containment measures whatever that we had initiated in the month of February/March, that has continued to yield the expected result during these nine months period.

Net interest margin is at a high of 3.26% for this quarter, last year, that is December 2019 quarter it was at 2.83%. Thus, there is a significant jump, and for the nine months period ended, it was at 2.82%, now it is at 3.07%. So, having a NIM of above 3% was our long cherished dream and we have been able to achieve it and most probably we will be able to sustain this also going forward. Return on asset is at 0.64% as against 0.60% last year and for the entire nine months period, it is at 0.71% against 0.67% last year.

Return on equity has also shown upward traction from 8.15% last December to 8.28% during the current December three months period. For the nine months period it was at 9.05%, now it is at 9.56%.

Gross NPA has come down to 3.16% and whereas net NPA is at 1.74%. This is by giving effect to the interim order of the Hon'ble Supreme Court. We had also calculated what would have been the position had there not been interim restraint order of the Hon'ble Supreme Court. So, my NPA would have been up by Rs.337.23 crores during the December '20 had there not been SC restraint order. The addition during September '20 would have been around Rs.90.15 crores, and December '20-Rs.337.23 crores. Total addition would have been Rs.427.38 crores to the GNPA which would have taken our GNPA percentage to 3.95% from the existing 3.16%. But as of December 2019, our GNPA was 4.99%. So, about a year back GNPA was at 4.99%, now, even had there not been SC order, the GNPA would have been 3.95%. So, this itself shows that the portfolio has not deteriorated, rather it has further improved.

Similarly, NNPA presently it is at 1.74%, again with proforma NPA, it would have been at 2.42% instead of 1.74%. Last year December 2019, it was at 3.75%. And the credit cost for the current quarter it is at 0.32%, and for the entire nine months, it is at 1.30%.

Provision coverage ratio has reached a new high of 80.51%; it is an all-time high for Karnataka Bank. Last year by December 2019, it was at 59.34% and by March '20, it was at 64.70%. So, it has now reached a level of 80.51%.

Cost to income ratio during the current quarter it is at 50.63% whereas, for the nine months period it is at 43.24%. Capital adequacy ratio has now improved on account of reduction in risk weighted assets and also slight improvement in Tier-1 and Tier-2 capital. As a result, the capital adequacy ratio has further improved to 13.83% from 12.88% as on March '20.

Recovery in written-off accounts is one of the best in the recent times. Last year during this quarter, we had recovered about Rs.9.43 crores in the technically written-off accounts, whereas this year it is at Rs.26.86 crores. Last year, during nine months period, we had been able to recover Rs.36.21 crores, this year it is Rs.55.46 crores.

The business turnover of the bank is flat at Rs.1,27,013.55 crores, that means a nominal growth rate of 0.59%, deposits also almost at the same level with the nominal growth rate of 3.46%. However, the advances have shown a declining trend by 3.14%, it is at Rs.53,187.49 crores. Last time also I had mentioned that we have been focusing on the retail and mid corporate advances so as to minimize our dependence on the large corporate borrowers. So, this time retail advances i.e. upto Rs.5 crores and mid corporate advances i.e. Rs.5 crores to Rs.100 crores ticket size has grown at a rate of 9.75% whereas, the large corporate advances, there is a degrowth to an extent of 40.41%. That is the reason why there is a degrowth in advance portfolio. But we had grown where we were expecting to grow. And as a result, as of now, less than Rs.5 crores portfolio (i.e. retail portfolio) is at 51.43% of the total advances. About a year back it was at 46.56% and mid corporate advances (i.e. Rs.5 crores to Rs.100 crores) was at 28.25% of the loan book, now it is 33.10% of the loan book whereas, the large corporates (i.e. Rs.100 crores and above) was constituting 25.19% of the loan book about a year back, now, it constitutes 15.47% of the loan book. So, there is a major realignment of our advances portfolio as per our original plans for the current year. This will further continue during the Q4 also and by next year there will be a further growth in the retail and mid corporate, which will continue to be our focus area.

On the liability side, even though the growth in the overall deposit is 3.46%, we have been able to record a 13.57% growth in CASA, as a result, now the CASA constitutes a new high of 30.07% of the total deposits. Never in the past, we have been able to achieve this level. So, at present it is an all-time high of CASA, (i.e. at 30.07%). Yield on advances is at 9.38%, last year in December 2019, it was at 9.49%. So, there is a slight reduction because of the competitive rate of interest and continuous reduction in the MCLR over a period of time. Cost of deposit has come down significantly from 6.06% to 5.40%. As a result, the interest spread is again at a high of 3.98%; it was at 3.43% about a year back. We have restructured advances of Rs.689.80 crores as of now, compared to Rs.503.74 crores about a year back.

The digital transactions which has been one of the focus area under our transformation journey “KBL Vikaas”, has reached 88.77%. Most probably by March ‘21, I am confident of taking it to a level of around 90% of the total transactions. Similarly, our digital loan sanctions initiative taken up in association with our Digital Centre of Excellence (DCOE) at Bengaluru, have already focused on digital sanction of majority of the retail loans, especially the home loan, car loan, two-wheeler loan, salaried class loan, and various MSME loans and personal loans also. MSME, working capital as well as the investment loans, everything is now brought under the digital sanction.

At present, on an average about 65% to 70% of the daily sanctions under each of this portfolio is being done under the digital sanction. That has helped us in huge efficiency improvement in every aspect. We will further strengthen these digital loan sanction initiatives.

And as far as the outlook, we will continue to be cautious, because that is the requirement of the present day. And we will continue to focus on our trusted business principle of “Conserve, Consolidate and Emerge Stronger.” We will continue to strive hard to have a healthy growth and to further strengthen the fundamentals. Consistency has been the hallmark of our performance all along. So, we will continue to focus on the consistency factor.

A detailed presentation on the financial results, it is already uploaded in our website, and we have also furnished this presentation part to both the exchanges (i.e. BSE and NSE). You can access this management presentation on the financial results either from our website or through the exchange web site.

With this, let me now welcome questions from the interested participants.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jai Mundhra from B&K. Please go ahead.

Jai Mundhra: Sir, I have a question from a slide where we have given the movement of moratorium book. So, December 2020, we have around 1.74% of advances into moratorium, that roughly translates to Rs.900 crores. So, what is this number of 900 crores?

Mahabaleshwara M.S. This includes some of the accounts which have been already identified for the OTR-related things. So, OTR under both MSME as well as the general advances.

Jai Mundhra: If they are not paying, then they should be in pro forma slippages, right?

Mahabaleshwara M.S. This 1.74% have not paid for the period of three months (i.e. September, October and November), whereas from December onwards, recovery is happening, but anyhow majority of these accounts are also identified for the OTR-related treatment. From that angle, once they make the payment, they will also continue to be the performing advances. So, in that moratorium book even though it was at 51% as on June '20, came down to 11% as on Sep '20, now, as of December it is at 1.74%. Going forward I think around 50% would come out of it, around 40% to 50% may turn to NPA, that is what we had factored in for the future that is the Q4 probable NPA numbers also.

Jai Mundhra: So, sir, the question is our pro forma slippages as you have given in the slide that is around roughly 427 crores?

Mahabaleshwara M.S. Rs.427.38 crores. In that, September figure is Rs.90.15, December quarter is Rs.337.23 crores.

- Jai Mundhra:** This entire Rs.900 crores should be pro forma slippages, right, because they are in moratorium?
- Mahabaleshwara M.S.** No, they are within three months. The pro forma slippages of Rs.427.38 crores discussed earlier, have crossed 90-days DPD, however, due to the SC order we have not treated as NPA, that is reflected in the standard advances. But we have identified these accounts and started making upfront provision. Now for the COVID-19 itself, we have already made upfront provision of about Rs.150 crores. So, that is what I said, had we included it, our GNPA would have been 3.95% instead of 3.16%. .
- Jai Mundhra:** If you can quantify the SMA-0, SMA-1, SMA-2 number for our bank as of December?
- Mahabaleshwara M.S.** SMA-2 342 crores. For the SMA-0 and 1, right now we don't have, next time we will incorporate that.
- Jai Mundhra:** And the last question that is on restructuring. We have given I think the data in the presentation that we have identified Rs.1,029 crores as restructuring. So, these are the accounts where you have received the intimation, and these may be implemented by fourth quarter. Is that the understanding?
- Mahabaleshwara M.S.** Yes.
- Jai Mundhra:** And this is over and above Rs.689 crores, right, which is already there?
- Mahabaleshwara M.S.** Correct, I had told in the past that our OTR book could be in the range of 2% to 4% of our total advances. So OTR would be within that limit only.
- Moderator:** Thank you. The next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.
- Kishan Gupta:** Want to understand why and how this gross NPAs came down from some Rs.2,200 crores in September quarter to some Rs.1,700 crores this time?
- Mahabaleshwara M.S.** The recovery was Rs.90.90 crores, technical write-off was Rs.390.64 crores and others are 2.09 crores recovery, total it has come down by Rs.482.23 crores, i.e. from Rs.2188.80 crores to Rs.1706.57 crores.
- Kishan Gupta:** So, basically how much is the slippage?
- Mahabaleshwara M.S.** Slippage was just Rs.1.40 crores, virtually there was no slippage because of the Hon'ble Supreme Court order.
- Kishan Gupta:** And this technical write-off of Rs.391 crores is in which accounts?

- Mahabaleshwara M.S.** See, that is the technical write-off only, not write-off from the books. Gradually there would be recovery from that portfolio which would straight away go to the profit and loss account. During this quarter alone there was a recovery of Rs.26.86 crores from technically written-off accounts and for the nine months, there was a recovery of Rs.55.46 crores.
- Kishan Gupta:** So, what was the nature of these Rs.391 crores write-off, which sort of accounts essentially?
- Mahabaleshwara M.S.** We are writing-off only those accounts where provision is fully made, however recovery efforts will continue.
- Kishan Gupta:** So, basically since you're competing against other banks in your region and you tend to have a very strong presence in South, so, what is your competitive advantage there?
- Mahabaleshwara M.S.** We are not competing only in South, we are competing at all the areas, even though our number of branches are more in the southern area, , the northern states especially Delhi NCR are also giving good business. The area of our dominance, especially sectorwise, it is the MSME sector, home loan sector, gold loan sector and agricultural sector. This year the gold loan has grown at a rate of 32.40%, home loans at a rate of 7.96%, MSME has been the focus area and this has grown at a rate of 18.46%, agriculture across India has grown at a rate of 12.25%. So, these are the sectors which have given the growth and these sectors do not belong to any particular state. As long as the proposals fulfill our credit policy requirements, we continue to lend.
- Kishan Gupta:** Do you have some special team working out for these sectors basically?
- Mahabaleshwara M.S.** Yes, under our transformation journey, we have created a separate credit marketing vertical and at all the 14 regional offices, we have Regional Sales Executives under whom the credit marketing officers are functioning. So, this is a special focus area and they have been given the sector prioritization and the area where we would like to have the growth i.e., mid corporates, retail and MSME advances etc and the progress is monitored on a weekly basis through a digital dashboard. The credit marketing GM interacts with the potential clients. Thus, concerted efforts are being made in the identified area to have a healthy growth.
- Kishan Gupta:** What is your advances growth target for next year?
- Mahabaleshwara M.S.** For the financial year '22 we are yet to finalize, but it will be in double digit. Even in the current year also in the identified areas such as the retail and mid corporate, we have grown almost at 7.22% and 13.74% respectively and the average growth in these two sectors is 9.75%. That will continue to be our focus area for the ensuing years as well.
- Kishan Gupta:** Yes, other banks like HDFC Bank are also focusing on certain areas like corporates now, so, when they are focusing on a particular area, they are able to grow still at around 20% advances.

- Mahabaleshwara M.S.:** But large corporates are not our focus area. I have told you that our focus area is retail and mid corporate.
- Kishan Gupta:** I know but overall your advances growth is not in line with what other private sector banks are doing.
- Mahabaleshwara M.S.** We have been realigning our portfolio, because in the past, our experience with the large corporate advances was not on the expected line. So, that is why major realignment of the advances portfolio was attempted during the current year without compromising the bottom line. We have also by experience noted that the yield on advances from the retail and mid corporate is very much on the expected line compared to the large corporate, wherein the yield on advances is not on the expected line because of the high interest rate bargaining power that they have. We don't have that type of cheap funds to lend at a lower rate.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from IDBI. Please go ahead.
- Bunty Chawla:** So correct me, after this, if we don't continue the pro forma Supreme Court, Rs.427 crores as you said would have been the fresh slippages in Q2 and Q3 total addition, right? Secondly, you said you've given the presentation Rs.1,030 crores, which are eligible under one-time restructuring, which is approximately 1.92% of the advances. And thirdly, you've given on the movement of moratorium book, which is 1.72%. So, if I calculate on the book, it comes to 925 crores something like around. So, if I add Rs.427 crores plus Rs.1,030 crores plus Rs.925 crores, these all together...
- Mahabaleshwara M.S.** No, moratorium book it is already subsumed under the OTR book.
- Bunty Chawla:** You're saying this 1.74% which is Rs.925 crores is a part of Rs.1,030 crores?
- Mahabaleshwara M.S.** Yes. Going forward, moratorium book may not pose a severe problem, majority of those accounts are offered one-time restructuring wherever eligible.
- Bunty Chawla:** So, this comes to around approximately 2.75% adding this one-time restructuring as well as fresh slippages of Rs.427 crores. So, can we say this 2.7% or approximately 3% is the only impact on the asset quality front could be due to the COVID-19 which has come around now, out of...
- Mahabaleshwara M.S.** OTR is going to be addressed and with restructuring it will continue to be a standard advance, however, there is a provision requirement, for MSME 5% and for the other general advances 10% provision is required. And this entire provision, we have already frontloaded in the current quarter itself. So, even if some portion of these identified accounts slip to NPA, the hit on the provisioning, if any, is already absorbed.

- Bunty Chawla:** So, that was on the P&L part. I'm trying to understand if on a conservative basis, we assume this was the maximum impact we got from the COVID-19, now, if NPA also occurs, will come from this Rs.1,030 crores kind of restructuring, some of the account does not repay properly?
- Mahabaleshwara M.S.** If you want to call it as a worst-case scenario, you can have your judgement.
- Bunty Chawla:** So we can say on a worst case scenario 3% is the maximum impact we have got from this COVID-19 situation, nothing or no specific other accounts under SMA-1 or SMA-2 we have recognized yet, do we see other than this coming to an NPA part in FY'22 kind of a thing?
- Mahabaleshwara M.S.** As on March'20, the slippage ratio was at 3.75%. So, for the current year once the assets classification or the health of the advance is recognized by March '21, the slippage ratio could be in the range of 1% to 2%.
- Bunty Chawla:** Can you give guidance for FY'22 how much slippages we have estimated or our rough guess kind of a thing?
- Mahabaleshwara M.S.** For FY'22 we have not yet done,
- Bunty Chawla:** As you said Rs.1,030 crores is the OTR, so 10% provisioning we have already provided to P&L, nothing will come in Q4 you are saying?
- Mahabaleshwara M.S.** Not only the OTR identified accounts are provided upfront, even for Rs.427.38 crores which is not marked as NPA, but kept under exclusion, we have made general provision based on the IRAC norms, and that provision is also absorbed during this quarter itself. It is all reflecting under the standard advances provision.
- Bunty Chawla:** And the provision coverage you have given with pro forma slippages stands at 75.09%, right. So, going forward, should we expect still this number increase or it will remain at 75%?
- Mahabaleshwara M.S.** Because of additional NPA that is going to be classified by March '21, we may have slight adverse impact on the provision coverage ratio(PCR). Even though the actual PCR now is at 80.2% and on pro forma it is at 75.09%, by March'21 it may slightly come down, but apart from that I'm confident that it will settle above 70%.
- Bunty Chawla:** Net interest margin you've given the number it has almost improved, more than 3%. Is the net interest margin including interest reversal part with the pro forma slippages have been occurred??
- Mahabaleshwara M.S.** On Rs.427+ crores that we have identified as proforma NPA, we have reversed the eligible interest from that particular portfolio.
- Bunty Chawla:** And if you can share any guidance on the same net interest margin, how one should see for the full year '21 & '22?

- Mahabaleshwara M.S.** We will try to come up to your expectation. It will be above 3%, as we have reached high of 3.26% for this quarter. Going forward, I'm confident of a positive traction, definitely above 3% conservatively.
- Moderator:** Thank you. Next question is from the line of Naishi Shah from Acko General. Please go ahead.
- Naishi Shah:** Like in the Q2 results, y'all mentioned that y'all have been actively growing your retail book as well as the gold loan book under the retail. So could you give us an idea of how much this has grown in this quarter?
- Mahabaleshwara M.S.** Gold loan has shown a growth rate of 32.40%. Home Loans 7.96%. MSME advances 18.46%. Agricultural advances 12.25%. So as a result, our retail advances is now presently at 51.43% of the loan book, which was at 46.56% about a year back. And the mid corporate loan book is 33.10% of the total loan book, which was at 28.25% about a year back. And the large corporates, we have scaled it down to 15.47% of the loan book from a year back number of 25.19%. Going forward, I think we will be able to sustain these numbers. So, retail would be somewhere around 50% to 52% and the mid corporate around 32% to 33% and large corporate below 15%.
- Naishi Shah:** So in the Q2 results you also mentioned that the focus will be on growing the CASA and it is expected to reach 30% by March 2021. So y'all have already reached the target right now. So, I am looking at an increase in this in the upcoming quarter?
- Mahabaleshwara M.S.** Yes, our efforts will continue, because we had already clocked a growth rate of 13.57% in the CASA. That is the reason why we have been able to reach 30.07% of the total deposits under CASA. We are optimistic of taking it to a level of around 31% to 32% in another one year, because by that time, the retail term deposit growth will also be visible, so we have to balance that. We don't get any government institutional support for the CASA, but there has been very good support from the general public. Our SB has grown at a rate of 13.37% and current account at a rate of 14.21%. We will try to sustain these numbers. Going forward, it may not deteriorate, but definitely it will improve further.
- Naishi Shah:** Could you just give us an idea about the liquidity probably the one-year ALM numbers or the liquidity coverage ratio?
- Management:** It is very comfortable at around 250%. So, we are not foreseeing any challenges in managing the liquidity. We have adequate liquidity also. Deposit growth is seen as already explained in the beginning. Advance growth overall is muted, though on the retail and the mid corporate there is a traction, therefore, we have adequate liquidity in the system.
- Naishi Shah:** Are you looking for any borrowing in the market in the upcoming quarter, like NCDs or CDs?
- Mahabaleshwara M.S.** No. We will rather focus on the core deposit to support our lending efforts.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiduciary Capital. Please go ahead.

Manish Dhariwal: I basically wanted to understand the competition intensity that you're facing at the ground level. See, one of our earlier participants also touched upon this. Who is the competition for you on the ground, meaning HDFC Bank is very aggressive, you also mentioned that their cost is also very low, so, they are able to compete on the basis of the costing trend, so how are you able to sustain in this market and record the growth rate of 32%? So basically, the fear is that what can be the impact on the quality of this advance.

Mahabaleshwara M.S. I don't want to call it as a competition, but there are challenges, whenever there is a challenge, there is opportunity also. And we are a household name and not a new bank which is in existence for the last just five years or 10 years wanting to have a mark. We are in this financial business market for the last 97-years. We have our own niche area. That is the reason I said when we thought of improving the CASA, about 10-years back, our CASA was hovering around 20% to 22% only, and the present level is because of the general public support only. So, that type of niche market is available and we are catering into those areas. Two things; one is field level good quality service; second one is ably helped by the digital products. These have been the advantages of Karnataka Bank. And going forward, we will further strengthen both these things. My staff 8200+ plus at the field level are trying their level best to extend the excellent customer service ably assisted by many of our products and services supported in the digital platform. So, keeping that in mind, both the assets side as well as the liability side, we have identified the priority areas, known as sector prioritization. For the current year, definitely it was the gold loan portfolio, which has grown at a rate of 32.40%. Still there is very good scope for that. And home loan we had grown at about 20%, 22% plus last year. So, this year, it has moderated because my total loan book of the home loan, we wanted to have it at around 16%. Last time, we had already crossed that. So, we wanted to stabilize at that particular level. MSME has been another area wherein the growth has been quite satisfactory at double digit at 18.46%. So, we have identified this area. We have branches in the rural, semi urban, urban and metro centres. So, those branches are given the specific target and the target sector also. This is the strength of Karnataka Bank. We have more than 11 million customers as of now. New customer onboarding is continuously going on. And when once the customer is onboarded for Current or SB account, then naturally there will be lot many cross-selling opportunities also and all those things are being encashed right now.

Manish Dhariwal: So, basically what is our medium term to long term target on the return on equity?

Mahabaleshwara M.S. ROE should be double digit at a very short term and ROA also should cross 1% let us say within a year or two. NIM was not at a comfortable level, but now we have been able to at least take it to above 3%. I think ROA and ROE should also follow because our NPA problem has definitely eased out during the current year. Even if we include the exclusion accounts GNPA is very much under control, that is below 4% as compared to 4.99% y-o-y So, asset quality definitely has shown a positive traction and this will have a favorable impact on ROA, ROE etc. I am optimistic.

Manish Dhariwal: So, with the retail loans in the Indian economy rising and consistently increasing, because every bank and NBFCs are focusing on that segment. You're not foreseeing that there could be a challenge in the quality of advances to the sector?

Mahabaleshwara M.S. We have now addressed quality issue at the entry level itself. In the digital loan sanctions mode there are appropriate business rule engines, (BRE), and that is further strengthening our filtering of proposals. Gating criteria is also further strengthened. That is why we have been able to effectively address the quality issue at entry level itself. But anyhow, we are keeping a close watch on the collections also. I have already strengthened the collection mechanism. All these things put together we should be able to continue to grow at a very decent rate.

Moderator: Thank you. The next question is from the line of Siji Philip from Axis Securities. Please go ahead.

Siji Philip: I just wanted to ask on this employee cost. Do we have any one off during this quarter?

Mahabaleshwara M.S. For Employee cost, superannuation benefit has gone up, that is the only thing. Otherwise, as per 11th bipartite settlement we have already disbursed the salary arrears also, as we have been making sufficient additional provision for the entire arrears right from the last two and a half years. The additional provision in the past whatever that we had made, that was sufficient to pay the arrears. However superannuation benefits keeps on varying depending on the yield level. But for that, there was no variation.

Siji Philip: On the breakup in the retail loan book, can you give that how is the growth in each of the segment?

Mahabaleshwara M.S. Retail loan book overall is below Rs.5 crores and it has grown at 7.22% and mid corporate loan book has grown at 13.74%, both put together the growth is at 9.75%. Under the retail loan, the major contributor was the gold loan at 32.40% and home loans at 7.96% and agricultural advances at around 12.25%. And of course, car loan has grown at a rate of around 5%.

Moderator: Thank you. Next question is from the line of Sudhir Mahajan, an individual investor.

Sudhir Mahajan: I just have a couple of questions. One is this NCLT referred cases, we have about Rs.1,400 crores which is stuck there. What is the status of that and what do you probably think would be the recovery on that?

Mahabaleshwara M.S. Many of the NCLTs have not functioned for the last nine months. So once they start resuming their day-to-day hearing, majority of these accounts are likely to be resolved. However, as of now we have Rs.1,408.17 crores portfolio, under the accounts referred to NCLT. However, we have made provision of Rs.1357.92 crores, i.e. 96.43% provision. So, in future as and when the resolution happens, definitely these are the sort of hidden reserve for the bank. Going forward, it will definitely add to our P&L account also.

- Sudhir Mahajan:** So, what do you think you could have a recovery, just a ballpark figure, whether it's going to be 50%, 30%, 25% approximately?
- Mahabaleshwara M.S.** Let us hope for the best. My approach is like this, "You prepare for the worst and hope for the best", that is all. If you go through each and every business numbers as well as earnings number, if you further make a granular analysis, you will come to know we have already absorbed almost all the future shocks, if any. So, in this NCLT portfolio also, even if the entire 100%, let us say, the worst case scenario, is not going to be recovered, it is already front loaded and there is no impact on the future balance sheet. So, whatever the recovery that happened it is all going to help us in further declaring good profit as well as strengthening our balance sheet.
- Sudhir Mahajan:** Sir in the last 10-years approximately our bank has generated about 10,000 to 11,000 crores of profit. 1000 crores has gone into dividends and 1000 crores is collected back from the shareholders. So, that evens out. I find there's something wrong somewhere either with the market giving us valuations that giving us a valuation of 2000 crores whereas the bank has generated about 11,000 crores in the last 10-years Could you just give me a ballpark figure where has this money gone in?
- Mahabaleshwara M.S.** Our networth which was Rs.2,429 crores about 10 years back is now at Rs.6,611 crores So, of this networth of Rs.6,611 crores our equity capital is Rs.310 crores and of course, this is a part of our annual profit as well as whenever that we had issued the shares, the premium everything is there and by and large, I think you may be aware that around 70%, 72% of our annual profit is being ploughed back apart from distribution of the dividend And, wherever the provision requirement is there, that is also taken care of well in advance.
- Sudhir Mahajan:** I was just trying to just make a point that out of this, 10,000, 11,000 crores, our networth has gone up by 4,000 crores, about 2,000, 3,000 crores have gone into this thing. These are all the hidden thing of this bank but I don't know why we are not able to bring this out...?
- Mahabaleshwara M.S.** You yourself have said in Rs.1,000 crores plus we have NCLT related accounts and in the SR portfolio we have about Rs.140 crores and in technically written-off accounts we have around Rs.3,000 crores as provision. This year also, recovery in technically written-off accounts has further improved. So, in future these are all the hidden sources. Let us try to encash it.
- Sudhir Mahajan:** So, what was the total recovery this quarter? I didn't hear it properly.
- Mahabaleshwara M.S.** Total recovery was Rs.90.90 crores.
- Sudhir Mahajan:** On the gold loan, what is the real number? I don't want to see the quantum of the rise.
- Mahabaleshwara M.S.** This is 4.57% of our total advances now. About a year back it was constituting 3.17% of the total loan book.

- Sudhir Mahajan:** That's about Rs.2,500 crores. Am I correct?
- Mahabaleshwara M.S.** Yes, Rs.2,470 crores.
- Sudhir Mahajan:** Gold loans are they not much better yielding and secured than a lot of other things? Manappuram and all these guys are borrowing from you and lending out.
- Mahabaleshwara M.S.** That is why we have started direct lending. There is money, no doubt, but there are risks, it is also fraud prone area. We have taken abundant precautions including two times jewel appraisal and all such things. So, that is why we have now gone ahead in this front in a reasonably aggressive manner.
- Sudhir Mahajan:** About your credit cards and other things how are you planning? Some of the other banks make a lot of money in credit cards.
- Mahabaleshwara M.S.** Individually we have not launched any credit card from Karnataka Bank, but a co-branded credit card in association with State Bank of India is already launched i.e. SBI co-branded credit card of Karnataka Bank. The response is very good and we will further focus in expanding that portfolio.
- Sudhir Mahajan:** How does it help the bank?
- Mahabaleshwara M.S.** We are getting sourcing commission and a portion of the interest without any asset related risk.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Aalok Shah for closing comments.
- Aalok Shah:** Thank you Mahabaleshwara sir and the entire team of Karnataka Bank for the detailed presentation. Thank you all. You can now shut down. Have a great day.
- Mahabaleshwara M.S.** Thanks to all of you. Once again, Happy New Year 2021 to each one of you.
- Moderator:** Thank you. On behalf of Monarch Network Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
