



“Karnataka Bank Q3 FY-22 Earnings Conference Call”

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Moderator:

Ladies and gentlemen good day and welcome to the Q3 FY22 Earnings Conference Call of Karnataka Bank hosted by Investec Capital Services. We have with us today, Mr. Mahabaleshwara M.S – Managing Director and CEO, Mr. Balachandra Y. V – Chief Operating Officer, Mr. Gokuldas Pai – Chief Business officer and Mr. Muralidhar Krishna Rao – Chief Financial Officer.

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 the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mahabaleshwara M. S, Managing – Director and CEO. Thank you and over to you sir.

Mahabaleshwara M. S:

Thank you, ma'am. Good evening to all of you, a warm welcome to each one of you for the Q3 results con-call of Karnataka Bank. I'm happy that third quarter also has been another quarter of success. Also, this is a successive quarter of satisfactory performance and consistent results. Our efforts in successfully navigating through the COVID-19 affected economy is yielding the desired results without any major negative surprises. As in the previous quarters, this quarter also we continue to focus on asset quality improvement as well as credit growth and digital initiatives.

As far as asset quality is concerned let me briefly touch upon the NPAs, SMAs and the restructured loan book. As far as the gross non-performing assets are concerned during this particular quarter, it declined by Rs.170.60 crores from Rs.2501.12 crore as of September '21 to Rs. 2330.52 crore as of December '21. In percentage terms there is a 39 basis points decline from 4.50% during the sequential previous quarter, i.e., as of September '21 to 4.11%. Similar trend is also observed in NNPA which has gone down by Rs. 186.22 crores from 1546.11 crores as of September '21 to Rs.1359.89 crores as of December '21. Percentage wise also we have seen a 39-basis points dip i.e., from 2.84% as of September '21 to 2.45% as of December '21. As a result, the slippage ratio has further improved to 0.56% from that of 0.88% as

of September '21. The credit cost also has improved to 0.20% during this quarter from the that of 0.24% during the sequential previous quarter.

When we look at the SMA-2 portfolio during December'20, we had SMA-2 of Rs.3453 crore which was constituting 6.60% of our performing advances. This has come down to Rs.1393 crores during March '21 and representing 2.78% of the performing advances. Now as of December '21 it is at Rs.1155 crores, which constitutes 2.13% of the performing advances. Similar trend is also observed in SMA-1 wherein we had 5.32% of the performing advances under SMA-1 during December '20, i.e., a year back i.e., Rs. 2785 crores. And it has further improved to 4.35%. i.e., Rs.2181 crores as of March '21. The latest number is Rs.1487 crores which constitutes 2.74% of the performing advances. So, I should say that mainly on account of improved credit monitoring mechanism, we have been able to contain the SMA, contain the slippages as well as contain the NPAs.

As far as the restructured advances portfolio is concerned, our total restructured advances portfolio constitutes Rs.4690 crores inclusive of Rs.319.90 crores NPA and this is 8.27% of our GBC. For this entire portfolio of restructured advances of Rs.4690 crores we have an overall provision coverage of 16.10%. And here the NPA is Rs.319.90 crores. That is, it constitutes around 6.82% of the restructured book. However, for this NPA of Rs.319.90 crores bank has a provision of 53.53% amounting to Rs. 171.24 crores.

As far as credit growth is concerned, year-on-year the growth is 4.33%. So, some positive traction is happening in the credit area. The important growth sectors for us during these nine months period are mainly in drugs and pharma sector. It has grown by 49.41% and NBFC sector has grown by 46.12%. MSME sector has grown by 27.93%, gold loans have grown by 15.40%, Contractors' loans by 9.09% and agri crop loans by 5.59%. Hence on account of positive traction in credit and improved asset quality as well as reduced to slippages, the net profit has gone up by 8.27% to Rs. 146.57 crores from Rs.135.38 crores as on 31st December, 2020. During September '21 quarter, our net profit was Rs. 125.61 crores. Thus, during the sequential

quarter, the net profit growth is 16.69% i.e., from Rs.125.61 crores as of September '21 to Rs. 146.57 crores as of December '21.

Another important development is in the area of CASA, of course CASA is consistently improving. It is now at 31.30% as against 30.88% as of September '21. PCR has also further improved to 73.74%. As of March '21 it was at 70.05%, September '21 it improved to 71.75% and December '21, it is at 73.74%. CRAR, we had 14.85% at March '21. Now it is 14.15% excluding the current year's profit. If the current year's profit is also accounted, it will be 14.87%. i.e., almost at the same level as of March '21.

As far as the digital initiatives are concerned, our digital transactions to total transactions, it was at 83.50% about a year back i.e., as of December '20 and now it has further improved to 92.64%. Of course, digital underwriting of loans is on the positive track. KBL Xpress home loans digital underwriting has further improved to 68% of the total loans sanctioned on day-to-day basis. Car loans 78%, cash loans, KBL Xpress cash loan for salaried class it is 100%. MSME loans, also we have been able to have digital underwriting to an extent of 70%. All in all, our effort will continue to focus more on credit growth, CASA, asset quality improvement and digital banking initiatives in accordance with our transformation journey, KBL Vikaas 2.0. With this brief opening remarks now, the forum is open for further deliberations. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yashwant, an individual investor.

Yashwant: The only concern that I have as still I see that the restructuring is on rise from three quarters. So, that's my first question. The second question is about the initial goal that we had that overall business we would be able to do like Rs.1,45,000 crores or otherwise 12% to 15% of growth for this fiscal. Do you still think that it is possible to achieve that in this fiscal having the current situation in place?

Mahabaleshwara M. S: You have two questions. One is on Restructuring, second one is on the growth. As far as the restructured advances is concerned, Mr. Yashwant, last time I had told that another Rs.600 crores worth advances have already been invoked for implementation during this quarter. As against that Rs.600

invoked for restructuring, eventually we could get the applications as well as the implementation for only Rs.330 crores. i.e., the first one. That means restructuring has not gone up as originally we had estimated. Of course, as I said, restructured advances portfolio is continuously engaging our attention. We have already constituted a Restructuring Asset Management Cell and as a result in the restructured advances portfolio, the stress is also significantly coming down. If you look at the September '21 restructured advances NPA, it was Rs.359.19 crores. Now it has come down to Rs.321.40 crores. Similarly, the stress in the restructured advances under the SMA-2 category, it was 9.22% in September '21. Now it has come down to 8.07%. The restructured advances portfolio is not posing any concern but a continuous vigil is a must. As far as the second question i.e., the growth is concerned, Yes, we are still committed for this. For the simple reason we have good number of undrawn balance. In fact, the undrawn balance in the OD limit i.e., 1 crore and above, we have about Rs.4434.98 crore and the unavailed sanction limits to an extent of Rs.3293.78 crore. That means, all put together Rs.7728.76 crores. Because of the sudden spurt in the Omicron and other things, negative sentiments was experienced in the economy as a whole. So, borrower deferred their drawing during this particular quarter and we are seeing a consistent growth in the credit since last two weeks. i.e., the second fortnight of the current month. I am optimistic about this. That is why we are not going to revise our business estimates for the current financial year and very confident that we will be able to see a robust credit growth during this quarter.

Yashwant: From past three weeks or otherwise we have been talking about bringing in some institutional investors as stakeholders. Are there any real good interest on this front from the investors or otherwise we still would want to get into good numbers and that's when you would want to raise the capital?

Mahabaleshwara M. S: Regarding capital augmentation you know very well that we already have shareholder's consent. A view will be taken at appropriate time by following all the due process.

Yashwant: One last question with respect to the CCD exposure. I remember that in Q2 you had expected that account to be performing asset. Is it the same or otherwise we are still hoping that to be a performing asset?

Mahabaleshwara M. S: It is still continuing as an NPA and there are certain proposals for its revival also as well as the repayment by disposing of the assets which was marked to us. We are exploring both.

Moderator: The next question is from the line of Yash Dantewadia from Dante Equities Research.

Yash Dantewadia: I just wanted to understand in terms of loan growth what kind of guidance can you give? You have given a guidance of I think 12% to 15% earlier. So, that is something I want some more clarity on that's my first question.

Mahabaleshwara M. S: I still hold on to that earlier guidance.

Yash Dantewadia: And using the majority of this loan growth will come through digital underwriting?

Mahabaleshwara M. S: No, digital underwriting we are doing only for retail advances of up to Rs.5 crores ticket size. My aim is to have 80% target for our digital underwriting going forward. It may happen within a year or so. That is one area where the growth we are focusing, i.e., the retail sector. But our major growth during this current quarter is going to come in the mid corporates. i.e., Rs.5 crores to Rs.100 crores tickets size.

Yash Dantewadia: Also in the investor front, you didn't really answer the question in terms of how is the interest looking ahead. Obviously, I know you won't get into specifics and you can't get into the specifics but in terms of interest front what kind of interest are you getting from the market because last data I remember you've given in a con-call is that you said that investors are going through the loan book that they are going through the data etc., am I right about it?

Mahabaleshwara M. S: No. As I said all efforts are being made. Since we already have the shareholder consent, we will be taking a view at appropriate time by following all the due process. There is a lengthy process. It has to be followed.

Yash Dantewadia: I just wanted to know that in the interest front, what kind of interest it is. I get that. Also coming to the loan growth front, the loan growth in this quarter has

been pretty average so is there no demand for loans and you are still holding on to your previous guidance. Can you tell me how you are going to go about it? What are the initiatives you're taking to go about the 12% to 15% guidance?

Mahabaleshwara M. S: The loan growth especially, the loan origination is robust. As I said I already have a very significant amount of undrawn limit as well as the unavailed sanction limit, so the borrowers had temporarily postponed the availment which is now on positive traction. As a result, I am confident that we should be able to clock the credit growth guidance whatever that we had said at the beginning of the year.

Yash Dantewadia: I am really happy that the gross NPAs and the net NPAs coming down significantly. Since you are sticking to the guidance that is the icing on the cake. Thank you so much.

Mahabaleshwara M. S: We have been consistently performing, I think in all of these areas if you look at all the previous three quarters there is no negative surprises and the growth is happening in the desired sectors. That is what we have disclosed in our analysis of financial results as well.

Yash Dantewadia: Yes definitely. Also, there was a coffee estate NPA, I think about 100 to 120 crores, you were expecting the repayments coming in soon, is there any update on that?

Mahabaleshwara M. S: We had already received about Rs.17 crores during the Q2 and efforts are going on. They're also making efforts. There will be either restructuring of debt or there will be repayment by disposing of their assets. Revival of the unit is being examined by the present management.

Yash Dantewadia: What percentage of your net NPAs, if you can give me some insight in the terms of amount?

Mahabaleshwara M. S: You want to know the percentage of that exposure to the net NPA?

Yash Dantewadia: You can either tell me the percentage or you can tell me the amount, both will do.

Mahabaleshwara M. S: That we have provided fully and it is technically written off also. It is not forming part of the NPA as of now.

Yash Dantewadia: I am aware that its written off but I was just hoping on getting the amount because if it comes back into the book it's obviously a profit, right?

Mahabaleshwara M. S: Yes. It is around Rs.100 crores.

Yash Dantewadia: When I'm looking at the other banks performing and the way they have performed, I think especially in a small market capitalization a bank like Karnataka Bank we've outperformed most of the other banks in terms of constant profitability and the NPAs are pretty low if you compare it to some of the other smaller banks. So, I'm usually happy with that. Thank you so much for your effort.

Mahabaleshwara M. S: Thank you for the critical observation.

Moderator: The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors.

Manish Dhariwal: Continuing from the previous conversation, I would like to compliment the team for the splendid efforts that have been put in. Having said that, I would like to understand in a little more granular manner, the opportunities that Karnataka Bank finds for loan growth. When one looks at all the banks starting from HDFC and the SBI at the top and then going down to the other banks, there is such a tremendous strive and fight for business. Obviously, their cost of money is also significantly lower. So, what are the pockets which are basically giving you the confidence of good growth which is also secured and not risky?

Mahabaleshwara M. S: This is a very interesting question. From this point of view our thought process and action as of now is, we will be exploring more and more options under the co-lending. Apart from that I have indicated certain areas where we have shown in the past a good credit growth like MSME, gold loans, loans to the contractors, agricultural loan, agricultural ancillary activities etc. Majority of the ticket size what we are exploring, it is falling under the retail and the mid corporates. We are taking very conscious and

conservative steps in taking a exposure of above Rs.100 crores. That is number one. Number two, we are focusing on those states, last time also I had mentioned that we had zeroed on about 12 states across India for our credit growth where our track record of the credit generation and credit monitoring in those states as well as the credit quality in those states are satisfactory. That is the geographical sectors that we are exploring. That is why I said that all efforts have started yielding results. In fact, December also there was a very good credit origination. So, I'm confident that all will get converted during this quarter apart from additional credit origination during this quarter. The only thing what we are very carefully observing and watching is, is there any fourth wave of COVID-19 and what is in store for the entire economy in the ensuing budget also. But of course, these are all the external factors but as far as internal things are concerned myself and my entire team is totally charged up to ensure a qualitative growth.

Manish Dhariwal: Thank you so much for sharing these thoughts with us. If I may just ask a small follow-up, you mentioned about finding opportunities in the co-lending space. What I understand there is that if there's a consortium kind of a lending or if there is a multiple banking kind of a situation, what exactly are we meaning when we say that we are looking at co-lending options?

Mahabaleshwara M. S: No, it is not consortium. We will be having tie-up and a specific MoU with respective NBFCs. Generally, 80% of individual loans we can lend. So, this is as per the co-lending guidelines of the regulator.

Manish Dhariwal: I understand that you are looking at the NBFC tie-ups. I assume that space is going to be very risky because the NBFC financing is typically in the areas where the risk is on the higher side.

Mahabaleshwara M. S: You tell me one area where there is no risk.

Manish Dhariwal: That is also very true.

Mahabaleshwara M. S: We are into the business of risk only but only thing is it's always a calculated risk and we have all the precautions of mitigating the risk also.

Manish Dhariwal: That is wonderful. In fact the previous participant basically was trying to understand that obviously in the process of raising finance and equity it's a full detailed process and all that is very important. We understand that, we all understand that. What I think he was trying to understand which exactly is also my request is to understand how is the investor community looking at you? The point is that if you look at various parameters, we find that at all valuation parameters we are being very-very undervalued. At one end of the spectrum, I think that we already have a CAR of about (+14%) then why do we need to value it at such an undervalued price? But then I also when go back to your previous conversation that we had with you wherein you said that good investor will basically add a qualitative flavor to our bank which will basically improve the valuation multiples etc. So, this question basically is emerging from that side as to when now we have a demonstrated of our intent of getting in an investor, how is the community which is like desperately looking for good deals and all how are they, what you call interest from their side? If you could just share your thoughts on that. That would be very helpful.

Mahabaleshwara M. S: I will answer this question at appropriate time.

Manish Dhariwal: We understand that. All the very best to you. We've been a long-term investor and we continue to remain so. We are really hoping for some tremendous returns now. Thank you.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital.

V.P. Rajesh: My first question is about the restructured book, is it fair to assume that it has now completed in the sense that there are no more addition that will happen in the current quarter or is there some more to be added to it?

Mahabaleshwara M. S: As per regulators guidelines restructuring process should be completed latest by 31st December, 2021. Restructuring all eligible accounts invocations should be completed by September '21 and implementation by December '21 and we have totally adhered to the regulator's guidelines.

Moderator: We will move to the next question which is from the line of Ajay from Demo Advise.

Ajay: My question is regarding the first thing is what I can see is the interest earned had just increased from Rs.1554 crores to Rs.1565 crores, if I am right and the main increase in profit before tax is just as we have decreased the provisions as, we are seeing less number of NPAs. So, what is your guidance going forward? Will the number of NPAs be reducing and the reason for just a slight increase in interest earned?

Mahabaleshwara M. S: There are two issues. One is the slippage. So we have been on the consistent track during this nine-months period and in all probability, there will not be any negative surprises going forward. Second one is the interest income. You are aware that interest income during this last 1 year, it is almost flat. We had of course in December '20 our interest income was Rs.1595.51 crore and December '21, our interest income is Rs.1565.10 crore. Here the main reason is the yield on advances has come down because of the severe competition for good assets in the market. So, my yield on advances which was at 9.39% as of December'20 has now come down to 8.81%. However, we have been able to hold on to our interest spread by reducing our cost of deposit. That is why in spite of a significant reduction in the yield on advances, we have been able to maintain and manage the interest income. Going forward, when the credit base itself enhances, I think we should be able to improve the interest income also.

Moderator: The next question is from the line of Sameer, an individual investor.

Sameer: What is the reason for decrease in fee income by almost Rs.100 crores and second is why is there an increase in employee cost compared to last quarter?

Mahabaleshwara M. S: Last time we had a good trading profit. December '20 my trading profit was Rs.89.81 crores, whereas this year, this quarter it is just Rs.1.86 crores. Of course, this is an area where we are now focusing. We have already shifted our treasury to Mumbai and going forward we will be able to do well in this also. That is the reason why there is a decline in the other income. Your second question?

Sameer: Increase in employee cost as compared to previous quarter?

Mahabaleshwara M. S: Employee cost compared to previous quarter; it has not gone up significantly. We had Rs.267.25 crores as of last year i.e., December '20 and now it is Rs.256.90 crores. Of course, compared to September it has slightly gone up. Otherwise, employee cost salary wise, there is no much increase and superannuation benefit also we have been able to hold onto the same position compared to December position. But there was another thing I think which you might have noticed. There was a requirement of additional family pension that was supposed to be made and the regulator has also given an option of amortizing the family pension over a period of 5 years. In our bank, what we did is we had calculated that around Rs.23 crores so we didn't opt for the amortization. We have absorbed the entire amount during this quarter itself. That is the plus point here.

Moderator: The next question is from the line of Deep Shah, an individual investor.

Deep Shah: My first question is on the core fee income. Can I just know the reason for the decline in the core fee income which has come down sharply from Rs.268 crores in 2Q to around Rs.194 crores in 3Q on a sequential basis? What are the components that is dragging it down? Also, if you can share the breakup of the same?

Mahabaleshwara M. S: Yes, see this other income it is not just the core fee income. It is also inclusive of the recovery under the technically written-off account. During the September '21 we had recovered about Rs.104.01 crores under the technically written-off accounts whereas during the current quarter it is Rs.51.18 crores. That is the main reason why there is a nominal decline in the fee income and other incomes.

Deep Shah: Can give the FY23 guidance on the loan growth, credit cost and ROE kind?

Mahabaleshwara M. S: FY23 we have not yet published it. So, I am sorry.

Deep Shah: I have few other questions on the asset quality. So, what will be the ECLGS outstanding by the end of the December quarter and what portion of it would have slipped into NPA?

Mahabaleshwara M. S: You want clarification in the GECL portfolio?

Deep Shah: Yes.

Mahabaleshwara M. S: Under the GECL, our NPA is Rs.57.70 crores which constitutes about 2.77% of the entire GECL portfolio. GECL actually, our disbursement under GECL is Rs.2100 crores and to the borrowers the total exposure is around Rs.16,702 crores. Here what happens, in the GECL, there is 100% recovery through GECL Corporation when the account slips to NPA. When this account slips to NPA. We have started lodging our claims also, but there is certain procedure to be followed. Portfolio is showing significant improvement in terms of declining SMA-2, SMA-1 etc. So, it's all because of the improved recovery efforts and the mechanism.

Deep Shah: FY23, so you don't have the guidance but is there any internal estimate on the PAT front?

Mahabaleshwara M. S: We do have, but at this point, let me not discuss it.

Deep Shah: On the capital raising front, what is the validity of the bank's approval for raising in capital? What is the deadline for that?

Mahabaleshwara M. S: That is up to 1st of September 2022.

Moderator: The next question is from the line of Sudheer Mahajan from Mahajan Family Office.

Sudheer Mahajan: I welcome you as a shareholder that you have taken 79,000 ESOPs. Could I know the price of this ESOP,

Mahabaleshwara M. S: That is my ESOP, it was purely at market price as on the date of grant.

Sudheer Mahajan: That is there. All your ESOPs are at market price, right.

Mahabaleshwara M. S: Yes, no discount was given.

Sudheer Mahajan: That is as per the ESOP pricing?

Mahabaleshwara M. S: Yes, correct.

Sudheer Mahajan: It is very heartening that you have exercised your ESOP so you are showing a lot of confidence right now on ensuing quarters and this thing?

Mahabaleshwara M. S: I have put all my savings there.

Sudheer Mahajan: That is why I said it, that is why I brought it out. The next part is, what would be the PCR by end of March?

Mahabaleshwara M. S: PCR we would definitely maintain it at above 70% but our endeavor is to take it to a level of 75% over a period of next 2 to 3 years. We are in the accelerated provision mode now, that's why during this quarter while finalizing the results, future almost majority of the provisions of the future also we have front loaded. As I have made it clear that family pension there was a provision for amortization over a period of 5 years that we didn't opt and entire Rs.23 crores, we have absorbed. There was also a requirement of NPS increase from 10% to 14% that also we have absorbed. Over and above, we have also made certain accelerated provision for our NPA portfolio also.

Sudheer Mahajan: The next question is you have some NPAs in IL&FS and Sintex. How is the resolution of those two going and do we expect to recover anything from that?

Mahabaleshwara M. S: IL&FS Yes. We are one among all the consortium banks. In the entire banking industry, it is going in a forward mode. If it happens during this quarter, we will be getting some recovery under that. But individual bank level as such there is no recovery effort. It is all consortium and of course that is again fully we have provided and if it comes, definitely, of course one or the other day it has to come, that is going to help to improve our bottom line significantly.

Sudheer Mahajan: What do you think would be a recovery on that account?

Mahabaleshwara M. S: I am optimistic.

Sudheer Mahajan: And about Sintex?

Mahabaleshwara M. S: There also.

Sudheer Mahajan: Will be having some recovery?

Mahabaleshwara M. S: No, so far no but recovery efforts are moving in right direction.

Moderator: The next question is from the line of Sushil Choksey from Indus Equity.

Sushil Choksey: Listening to all the Q & A so far where is our transformation journey? The current phase likely to get over before we get to the next phase?

Mahabaleshwara M. S: Transformation journey, it started about 4 years back. We have completed the first phase of KBL Vikaas 1.0. In the first phase we focused more on the holistic transformation of the bank that is why you are seeing all these positive numbers now. There we focused more on credit transformation, HR transformation, the IT transformation as well as the customer experience transformation. Now we are in the second phase of the transformation wherein we are focusing on the digital transformation. That is why I said all the digital underwriting of the loans as well as the digital onboarding of our SB customers etc. We have already introduced tab banking as well as the web banking. There also now at present around 63% of my day-to-day SB accounts, are getting opened through the tab and web bank mode only. In this second phase, we will be opening our Analytical Center of Excellence at Bengaluru and lot of initiatives have already started and even my Board also making a very thorough review of all these initiatives. That is why we are aspiring to emerge as the 'Digital Bank of Future' during the next 2 to 3 years period.

Sushil Choksey: You are housed in the state of Karnataka which is the Silicon Valley pronounced by the world where Bangalore and Karnataka and Mangalore is concerned. How are we taking the benefit which is reaping to the state in terms of so many startups, Unicorns, Soonicorn which are emerging from our state and they have so much of money coming in which can support not only the state but the bank like Karnataka Bank?

Mahabaleshwara M. S: Yes, 100%, I think your thought process as well as our action both are on the same page. We have tied up with good number of startups as well as FinTech companies. That is way we have housed our Digital Center of Excellence as well as Analytical Center of Excellence (to be opened) at

Bengaluru and we are getting lot of positive vibes from these centers and all these products whatever that I am selling are all developed in-house. So that is the huge advantage for us.

Sushil Choksey: The digitization journey, you said you will be starting co-lending. I am sure that would be under digital process along with the partner who would come in 80:20 ratio or whatever the ratio you decide with the partner. What kind of business segment are we looking at? Education, gold, MSME, personal loans, neo-banking. What kind of partnerships are we looking at?

Mahabaleshwara M. S: Early breakthrough will be made in gold loans, MSMEs and in the area of the home loans. These are the three areas where we are in advanced stage of co-lending arrangement.

Sushil Choksey: Do we look at all these Unicorn, Soonicorn which are forming in your state or in country in India. So, they have equity money but there is no debt support because new businesses don't get that kind of support. Have we looked at any such kind of business partnerships?

Mahabaleshwara M. S: As of now no.

Sushil Choksey: My last question to the core business improvement; I see South India being a prominent saving community as a part of journey from India. Nationalized banks have reached 40-45-47% and the banks which are even in PCA reaching 50% CASA? How are we trying to improve from 30s to 40s to bring down our cost to income?

Mahabaleshwara M. S: Of course, our core area of household CASA will continue and added to that, we will be having our own government agency business cell housed at Bengaluru to capture the market. Not only the South India but also wherever that we have identified as the prospective states for us. That is why I am confident that going forward the CASA traction will be on the expected pace.

Sushil Choksey: When you all talking of so much of digital initiative, will not bank attract few lakh current and saving account customers who will get all the facilities whether its mutual funds subscription, trading in shares, insurance, car loans,

housing loans all that can be connected. Are we making an effort for pure retail 5 lakh-10 lakh-20 lakh kind of current accounts savings?

Mahabaleshwara M. S: That is very much happening. Now actually we are in the midst of our CASA campaigning itself. We kick started on 15th of November '21 which will run up to February end. So, far, we have been able to onboard about 3.5 lakhs new customers for CASA. That is the effort of our field level team. We have dedicated regional sales executives for CASA and the CASA marketing officers. That separate vertical is already in place. That is definitely going to continue and it will give us good result in the days to come.

Sushil Choksey: How are we empowering our youth or talent of Karnataka Bank or human resource for digital banking or credit banking or various initiatives which we are likely to benefit over a decade now?

Mahabaleshwara M. S: Multi-level activities are happening. At the entry level itself they are properly introduced for the digital banking and the existing manpower skill upgradation is also going on. We have our own e-learning modules for all our staff members. Besides that, we are also encouraging and taking effective steps for capacity building in each of the core areas of banking.

Moderator: The next question is from the line of V. P. Rajesh from Banyan Capital.

V. P. Rajesh: My question was regarding the restructuring book if it has peaked now or do you see more addition to it?

Mahabaleshwara M. S: No as I said, this restructuring exercise as per the regulatory guidelines is completed by 31st December 2021. There will not be any spillover effect as of now unless and until the regulator comes out with one more restructuring package. That is not in my hands.

V. P. Rajesh: But are you anticipating something like that or you are just the same is been case?

Mahabaleshwara M. S: No, external so many factors are there. Say for example the Omicron, all of a sudden there was spurt, now it is receding. We have to adjust ourselves to the external factors on which we, have any control.

V. P. Rajesh: On the last call you had said that you were expecting around 10% of this restructuring book to result into NPAs. What is the take on that estimate now?

Mahabaleshwara M. S: That will, going forward, come down because as of now, in the restructuring books the NPA is around 6% only. As I said since we have further streamlined all our market, its monitoring activities; I don't foresee any sudden spike either in the restructured book or in the overall advances portfolio.

V. P. Rajesh: I don't know if you answered this but what was our exposure to Café Coffee Day which I believe you have taken complete write-off on?

Mahabaleshwara M. S: It was about 100 crores.

V. P. Rajesh: All these cases which have been in the limelight like IL&FS, Sintex, PCB and other such DHFL let's say, what would our total exposure would have been for which we have provisioned 100%?

Mahabaleshwara M. S: We have reasonable exposure but only comfort level is we have provided fully. In fact, my overall NCLT referred accounts exposure itself is Rs. 1185.08 crores. For that I am having almost 100% provision.

V. P. Rajesh: Just a couple of questions on the equity raise. Since you have time, should we assume that the equity issuance is likely to be less than one time book value which is like Rs. 258 now?

Mahabaleshwara M. S: I didn't get your question. Will you please repeat it?

V. P. Rajesh: Our book value as of this quarter end is Rs. 228. The question is that should we assume that the equity issuance to our incoming investor will be less than this particular value?

Mahabaleshwara M. S: No comments.

V. P. Rajesh: Secondly if I may ask, are you in active conversations with some investors right now? Or this is just an enabling resolution at this point in time?

Mahabaleshwara M. S: Yes, that is a part of my job, always I have been in touch with the investors whoever is interested. So, ever since I assumed this office since last 5 years, I am doing that job also.

V. P. Rajesh: Finally, what is the ideal size from your perspective of an equity raise? How large will that be?

Mahabaleshwara M. S: At present no comments.

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

Jai Mundhra: First, if you can provide some more detail on slippages? I mean where are these slippages coming from? Any broad breakup?

Mahabaleshwara M. S: Slippages during this quarter, none of the advances of above Rs.15 crores have slipped to NPA. All the slippages are below Rs.15 crores. I think couple of quarters back I had told that above 50 crores no slippages. Last quarter, we had focused on 35 crores level. This quarter, it is Rs.15 crores and above, no slippages, it's all below Rs.15 crores ticket size.

Jai Mundhra: And on recovery, is there any lumpy recovery in this quarter or again the recoveries are also?

Mahabaleshwara M. S: This quarter, no.

Jai Mundhra: On this slide #30 if I see provision breakup; does this fair value of (-8) crores, is it MTM on bond book or what is that? Because I thought the bond book MTM is now supposed to be taken in other income?

Mahabaleshwara M. S: Provision on contingencies, NPA is Rs.111.75 crores, standard advances Rs.34.80 crore. Sale value this is write-back Rs. 7.81crore.

Jai Mundhra: Do you had any MTM loss on bond book?

Mahabaleshwara M. S: MTM loss this quarter, only depreciation on investment. That's all.

Jai Mundhra: What was that number and does this come in other income or does this go to provisions now?

Mahabaleshwara M. S: During this nine-months period, it is something around Rs.50 crores depreciation.

Jai Mundhra: Now this becomes a negative line item in other income or this comes in provision only?

Mahabaleshwara M. S: Negative line item only as per the revised guidelines.

Jai Mundhra: The last question from my side is your growth. If I look at growth driver for this quarter as well as previous quarter, it looks like that you are growing incorporates with ticket size above Rs.100 crores. If I back calculate the number, I mean you have given pretty much detail on the loan growth, loan books. If I calculate then it looks like of your Rs.1000 crores incremental advances increase around Rs.900 crore is coming from corporate which is above 1 crore. So, is that understanding right that so far as of now your focus I mean whatever opportunities are there mainly in corporates at this point of time?

Mahabaleshwara M. S: These are all Rs.5 crores and above ticket size. There are some corporates who have taken Rs.5 crores to Rs.100 crores. Some of the corporates have availed the limit that was sanctioned and the rest, they are availing during this quarter. Growth will be more during this quarter especially I am expecting the growth in the mid corporate advances as well as the retail advances.

Jai Mundhra: The reason why I am asking, it looks like that large banks they are competing or their pricing has become very competitive when it comes to Rs.25 crores and below SME loans. Have you also seen such higher competition from large private banks?

Mahabaleshwara M. S: The competition is very much there. That is why I have also given its impact on the yield on advances but we have our own preferred areas and we will continue to focus on that and that is our USP.

Moderator: The next question is from the line of Anshul Saigal from Kotak PMS.

Anshul Saigal: If I look at your initial comments where you said that the growth has come in because of somewhere close to 45% growth in NBFCs. Now what NBFCs are

these and how are they rated? Are they government, private, what kind of risks are we assuming when we are growing in NBFC?

Mahabaleshwara M. S: Anshul, I think we have given a detailed disclosure in our analysis of financial results which we have uploaded on our website. I would draw your attention to slide #37 there. NBFC portfolio, we have 69 accounts of that 67 accounts are BBB and above rated. There you will come to know what is the risk rate that is assigned and even I have told what is the NPA there and the SMA-2 under restructured book. Entire NBFC portfolio, we don't have any restructured advances, we don't have any accounts in SMA-2, why SMA-2 not even in SMA-1 and only one account that is under NPA that is also fully provided. That is the portfolio as of now.

Anshul Saigal: You also mentioned in the previous comments that you are looking to grow in the current quarter in retail and SME segments but then if we look at the reason why credit has not grown in the previous quarter, i.e., the third quarter; it is because of as you mentioned earlier that corporates are not drawn on their limit and so in the current quarter, corporates who have drawn their limits, that credit is what we will see as growth in the current quarter. Now how do we kind of align both these aspects? Will we grow because of credit incorporates or we will grow because of retail and SME? How should we look at it?

Mahabaleshwara M. S: I have made our priorities very clear. We would like to see more and more qualitative credit in the retail sector i.e., up to Rs.5 crores ticket size and also in the mid-corporate sector, i.e., Rs. 5 crores to Rs.100 crores. We have already lined up and sanctioned good number of proposals and they are all now in the disbursement mode. Apart from that credit generation activity is also going on in full swing by all the regional sales executives headed by the national head i.e., General Manager. That is why we are confident that there will be balanced growth in almost all the areas wherever we are targeting as the preferred sectors. We have the sector prioritization exercise also wherein we have identified sectors where we want to grow. That has already been disseminated to the field level functionaries and we are focusing only on that area.

Anshul Saigal: If we were to look at some of the larger banks and the results that have come out so far, there has been an impediment to credit growth in the current quarter and even for the future quarter, the growth estimates that they have been giving are quite strong. Now again in our results versus some of the other banks that have come out with their results, there is a bit of a dissonance that in the previous quarter we have not been able to grow credit in line with market. How should one see that? Is it just a spill over into the next quarter or is there more to it?

Mahabaleshwara M. S: 100% correct. In the sense my credit growth on year-on-year basis has been 4.33%. That is a clear-cut indication that there is a positive traction. But as I said the undrawn and unavailed limit would contribute during this quarter and I think the acceleration would happen during this quarter and we will be at par with the national average.

Anshul Saigal: My final question on the restructure book, I recall in the previous quarters call you had mentioned that in that book we will start seeing a reduction and I think you had mentioned that at least 10% reduction would be seen in the current quarter itself. Now again the feeling one gets is that, that's really not coming through. Again, how should one look at the restructured book? Of course, you have given some clarity on the focus on that segment but?

Mahabaleshwara M. S: What I said is we have already about Rs.600 crores restructured invoked book. My effort was in the direction to what extent we can contain that. As against Rs.600 crores invoked book, eventually only Rs.330 crores got implemented. We have been able to recover and keep those accounts regular amounting to around Rs.270 crores without opting for the restructuring.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Mahabaleshwara M. S: Thanks to all the participants for their keen interest as well as making a very thorough analysis of the results and passing on their inputs which is very valuable for me also. Almost all of you have appreciated the consistent performance of the bank. I am thankful to each one of you. Thank you.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.