

Conference Call Transcript

Event: Karnataka Bank Limited First Quarter Ended June 30, 2014 Conference Call

Event Date/Time: July 31, 2014 at 11 AM.

Karnataka Bank Limited First Quarter Ended June 30, 2014

CORPORATE PARTICIPANTS**P. Jayarama Bhat**

Managing Director and Chief Executive Officer - Karnataka Bank Limited

CONFERENCE CALL PARTICIPANTS**Sudhakar Prabhu**

Mumbai – Span Capital

Kunal Shah

Edelweiss Securities Limited - Mumbai

Kaitav Shah

Anand Rathi – Mumbai

Ganesh S. Shetty

Mumbai

Ritika Dua

B&K Securities – Mumbai

Nishid Shah

Ambica Financial Cap Consultants – Mumbai

Abhishek Agarwal

HDFC Life – Mumbai

Sneha Ganatra

Subhkam Venture – Mumbai

PRESENTATION**Geetha– Moderator**

Good morning ladies and gentlemen, I am Geetha for this conference. Welcome to the Karnataka Bank Limited first quarter ended June 30, 2014 Earnings Call. Shri P. Jayarama Bhat – MD and CEO will be your call leader today. For the duration of the call all participants lines will be in the listen only mode. After the presentation the question and answer session will be conducted for all the participants on this call. I will now handover the call to Shri P. Jayarama Bhat. Thank you and over to you Sir!

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

Thank you very much. Good morning to all of you who have joined this conference call of Q1 results of Karnataka Bank. Before we start question and answer, let me brief you about our results. The details and analysis of the first quarter results have already been published in our website. I hope you have gone through the same.

Now I give some of the highlights of the results. The business wise deposits Y-o-Y have grown by 15.90%, advances 14.23% and net interest income by 11.23%. The total income has grown by 4.19%. Coming to operating profit, there was a slight dip. It has come down from Rs 257 Crores to Rs 238 Crores, a dip of 7.52% but net profit has improved from Rs 94.17 Crores to Rs 121.63 Crores, an increase of 29.16%.

Net interest margin has slightly dipped from 2.39% to 2.33% YoY. and March sequentially it was 2.17%. Our CASA has grown by 22%. The CASA percentage stands at 24.98% as against 23.73%. The interest spread has slightly gone down to 4.08% and provision coverage ratio is almost at 50%.

Cost to income ratio has come down from 43.54% as of last year's first quarter to 41.62% and return on asset which was 0.9% in the last year's first quarter to 1.02%. Sequentially it has increased from 0.71% as of March 2014 to 1.02% as on June 2014.

The gross NPA has moved up from 3.22% to 3.43% and net NPA has also moved up slightly from 1.96% to 2.37%. The capital adequacy ratio stands at 13.05% Basel II with Tier I at 10.59% and Tier II at 2.46% and as per Basel III, the capital adequacy ratio stands at 12.97%, Tier I being 10.52% and Tier II being 2.45%. The return on equity has also moved up from 12.97% to 15.63% and it was 10.63% as of March 2014.

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The restructured portfolio as of June stands at Rs 1894 Crores forming about 6.56% of our total advances and as of March it was Rs 1862 Crores. These are some of the highlights of the results for the June 2014 quarter and all analysis like business per branch, business per employee etc have been given in the analysis of the results published in the our website.

I have finished my submission and now floor is open for any questions.

Geetha– Moderator

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

The first question comes from Mr. Sudhakar Prabhu of Span Capital from Mumbai. Mr. Prabhu, your line is open. You may ask your question now.

Sudhakar Prabhu – Mumbai – Span Capital

Good morning Sir. Thanks for having this call. I have couple of questions. First, what kind of growth do you see in deposits and advances in the current year, first quarter you have grown around 15% so do you think this growth is sustainable for the full year?

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

Yes, we have set a corporate goal for this year at growth of deposits at 18% and advances at 23% and we have projected CASA level at a level of 26% and these are the growth levels and we hope as in the first quarter, it is sustainable.

Sudhakar Prabhu – Mumbai – Span Capital

What will drive credit for you? You said you are targeting 23% credit growth so what will drive this credit growth would it be retail or wholesale or what, what is it?

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

The mix of wholesale and retail but more concentration on retail especially SME sector and agri sector where we have mandated level of advances to be reached and we will also go for some better rated Corporate customers also so its 50-50 and as of now the ratio stands with the 48 retail and 52 corporate and going forward it will be 50-50.

Sudhakar Prabhu – Mumbai – Span Capital

Okay and secondly sir, if you take a slightly longer term view of three to five years what kind of growth can we expect for the bank is it 15% - 20% growth possible?

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

Yes, we want to maintain at least minimum 20% growth every year and we are expecting a turnover that is deposits plus advances this year end at Rs 83000 Crore and next year it will be Rs 1 lakh Crore of business for the 2016 March and we are keeping a growth level of around 20% throughout.

Sudhakar Prabhu – Mumbai – Span Capital

Sir, what would be your branch addition plan to achieve this target, would you like to have aggressive in branch expansion because right now you are on 600 branches?

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

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Right now we are at 612 branches . Year end March 2014 we were at 600 ,we are targeting 675 branches , additional 75 branches this year and addition of around 300 ATMs we want to reach 1000 ATMS by this fiscal end.

Sudhakar Prabhu – Mumbai – Span Capital

Lastly on your restructured account of around Rs 1900 Crore how much would be public sector and Quasi Government in this, like State Discom and all?

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

State Discom and all about Rs 1200 to Rs 1300 Crores.

Sudhakar Prabhu – Mumbai – Span Capital

Sir any control on this or do you think this restructured asset is more or less peaked out?

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

There may be one or two restructuring of accounts in this quarter, may be to the extent of around Rs 100 Crore. But there would be some restructured accounts going out because of the satisfactory performance. I think peak level we have already reached at Rs 1860 crore. whatever may be position it will be lesser than that.

Sudhakar Prabhu – Mumbai – Span Capital

Right and lastly any capital raising plan Sir for this year?

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

No we do not have plans this year.

Sudhakar Prabhu – Mumbai – Span Capital

Thank you and all the best.

Geetha– Moderator

The next question comes from Mr Kunal Shah , Edelweiss, from Mumbai. Mr Kunal Shah you may ask your question now.

Kunal Shah – Edelweiss Securities Limited - Mumbai

Kunal over here. Good morning, Sir if you can just give some outlook in terms of asset quality, so you were planning to keep our GNPLs below 3% odd, so now this quarter definitely the slippages have been higher and that too coming in from the restructured pool, but what is the outlook in terms of slippages. So when we look at our SMA1 or SMA2 accounts, are we seeing a further stress or it should be much more controlled as we go through this fiscal?

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

Stress level continues but we hold on to our guidance of 2.5% gross NPA for this year with our recovery efforts and the first quarter slippages I think we have peaked it out and going forward it will not be to that extent and we still hold on to that 2.5% gross NPA guidance and 1% net NPA guidance. You know, last quarter we have not gone for any asset sale where all other banks have gone we have not gone for it we may go for it for few accounts in this quarter and going forward depending on our provisioning and all that we may go for some asset sale and see that the gross NPA levels comes down but we are trying to put a break on the slippages.

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Kunal Shah – Edelweiss Securities Limited - Mumbai

Okay so what would be the quantum which we are looking to sell out?

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

In this quarter around Rs 80 Crore to Rs 85 Crore and where full securities are there and we should get good amount also which may add into the income portfolio also.

Kunal Shah – Edelweiss Securities Limited - Mumbai

Second in terms of provision breakup if you can give it for this quarter in particular as to how much is towards the NPL any provisioning which we have done?

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

Quarter-to-quarter, first quarter last year to first quarter of this year I will tell you, the NPA provision for this quarter was Rs 50.67 Crore that was Rs 69.82 Crore last year's first quarter. So, then standard forex advances provisioning which is inclusive of provisioning for unhedged forex exposure it is Rs 34.61 Crore comparatively last year the standard advance provisioning where UHFC was not there Rs 18.18 Crores, depreciation investment, we got the write back of Rs 30.19 Crore this year and last first quarter it was Rs 17.68 Crore and fair value provisioning we got write back of around Rs 8.78 Crore this year last year it was plus Rs 3.39 crore. So total provisioning other than tax was 55.93 Crores this quarter last quarter it was Rs 72.90 Crore and if you add tax, tax including current and deferred it is Rs 60.57 Crore this year and last year's first quarter was Rs 90.44 Crore so total Rs 116.50 Crore v.s Rs 163.34 Crore.

Kunal Shah – Edelweiss Securities Limited - Mumbai

Okay and this forex we have entirely taken it in this quarter itself?

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

Yes that we have mentioned in our notes, they have been entirely taken.

Kunal Shah – Edelweiss Securities Limited - Mumbai

That is not amortized...

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

Yes.

Kunal Shah – Edelweiss Securities Limited - Mumbai

Sir outlook on margins?

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

Yes, margin, I still hold on to 2.75.

Kunal Shah – Edelweiss Securities Limited - Mumbai

This would be driven by?

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

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Driven by strong credit growth and strong recovery where we get reversal of unrealized interest and all that.

Kunal Shah – Edelweiss Securities Limited - Mumbai

Sir in terms of cost of deposits, what are we saying in terms of CASA mobilization and say the retail term deposits, how are we planning to bring down the overall cost of deposits current level of 7.9%?

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

Cost of deposit now it is 7.88% and it would be around that level only, our efforts will be to increase the yield on advances. See yield on advances was at a level 11.96% and we want to take it around 12.35% during this year whereas the cost of deposit was 7.88% that will be somewhere near 7.9% because the deposits interest rates are almost stable now and we have to go for higher yielding advances, definitely we will try for that.

Kunal Shah – Edelweiss Securities Limited - Mumbai

That is all. Thank you.

Geetha– Moderator

The next question comes from Mr. Kaitav Shah from Anand Rathi Mumbai. Mr. Shah you may ask your question now.

Kaitav Shah – Anand Rathi – Mumbai

Good morning sir, thank you for taking my question. So the change in depreciation method was on account of what Sir?

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

That is as per the new Companies Act the changes were inevitable and then considering the complexity involved, we changed to the straight line method.

Kaitav Shah – Anand Rathi – Mumbai

Okay, sir what will be the Gold loan portfolio outstanding now?

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

Gold loan portfolio outstanding now stands at Rs 2551 Crore and last year we did not have much growth in gold loan, growth rate was around 10.18% and it stands at around 8.76% of the total advances.

Kaitav Shah – Anand Rathi – Mumbai

Sir what would be the RIDF investment a write back if any this quarter and what are we expecting over the next three quarters?

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

For the whole year we are expecting an amount of around Rs 500 Crore refund. It will be the write back and as on date RIDF stands at Rs 2184 Crore, last year it was Rs 2655 Crore so write back around Rs 480 Crore the same way this year also we may get the write back. Simultaneously we are also improving the yield on RIDF portfolio it is going up now slightly compared to the last year the yield level has gone up from 4.51% to 4.71%, here also we are getting the benefit.

Kaitav Shah – Anand Rathi – Mumbai

Sir and out of the slippages of Rs 266 Crore how many account would contribute the top 50% or 70%?

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

Around 10 account around 50% to 60%.

Kaitav Shah – Anand Rathi – Mumbai

First quarter normally is bad for us on seasonality point of view any which ways so would you say this is worse than the typical first quarter?

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

It is because of some three four big accounts falling into this NPA category otherwise we would not have expected much slippages, the first four accounts contributed around Rs 100 Crore we have strong chances of recovery in these accounts that I think we will show a good recovery.

Kaitav Shah – Anand Rathi – Mumbai

What would be the recovery upgradation from this?

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

This quarter as I already told you it is total Rs 103 Crore out of that write off is Rs 40 Crore so around 62Crore.

Kaitav Shah – Anand Rathi – Mumbai

Could you also in terms of other income give us the break up; I saw the treasury number but what would be the recovery from return of assets?

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

There are no much recoveries in the return of assets as compared to the last year's first quarter. We have strong income growth in commission and exchange and total receipts this quarter was Rs 129 Crore as against Rs 205.94 Crore last quarter out of that the difference is one is the treasury income, treasury income has come down from Rs 80.70 Crore in the first quarter of last year including one time sale of investment Rs 4.50 Crore so there is a difference of around 56 Crores. One time receipt in the technically written off accounts advances around 20 Crore last year; this two added to the higher other income portfolio last year.

Kaitav Shah – Anand Rathi – Mumbai

So even if I exclude both of them Sir still the fee income has been very muted so what is your take there?

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

The fee income we cannot rely much because of this all electronic type of transfers compared to the previous DDs and all that but still we can improve upon commission and see the commission increase was just 1.58%. There are not many other areas where we have shown improvement, exchange profit is also just moved up by about 2% and locker rent has moved up by about 4% it was almost static for the last year to this year. We have a huge portfolio of this technically written off accounts of the order of around Rs 150 Crore where we are intensifying our recovery efforts so we are destined to get some amount in that may be around Rs 25 Crore to Rs 30 Crore which will add to our other income portfolio.

Kaitav Shah – Anand Rathi – Mumbai

From a NIM perspective while CASA as sort of remained stable but your CD ratio has again come off year on year and quarter on quarter so what are your thought there?

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Yes. We are targeting a CD ratio around 73% by end of this fiscal and also CASA ratio at a level of 26% and also robust recovery all this will give us an improved NIM and our guidance is 2.75% we will try to reach that.

Kaitav Shah – Anand Rathi – Mumbai

That is it from me. Thank you so much.

Geetha– Moderator

The next question comes from Mr. Ganesh S. Shetty he is an Individual Investor from Mumbai. Mr. Shetty your line is open.

Ganesh S. Shetty – Mumbai

Congratulations for this that numbers. Sir NPA number has been erratic quarter-after-quarter because Q4 quarter good come back as far as NPA is concerned and this quarter again we are having little upward towards NPA. Sir is there any other controlled measure we are going to take this quarter which will stabilize our NPA during the quarter or during the rest of the year?

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

We have taken this issue very seriously and we have brought in lot of control measures including due diligence of the new loans. We are tightening the due diligence exercise as well as monitoring of the loans and these control measures from the head office side and also at the regional office level also and constant monitoring of these accounts by regional offices will certainly put break on the increased slippages which you have witnessed in the first quarter, definitely your concern we value and we will see that this type of slippages will not be there in the future.

Ganesh S. Shetty – Mumbai

Sir my second question is regarding the two MOUs you had with the Star Agri as well as the VSP. I think this is a new efforts from Karnataka Bank towards increasing the business and as far as Costal Karnataka is concerned the rainfall is also quite satisfactory as we were expecting some shortfall in rainfall during the beginning of the quarter. Now looking into all these things how you would rate agricultural portfolio of our advances. Can you please clarify or give some color on this Sir?

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

Yes only to increase the agricultural portfolio these two MOUs have been entered into. The farmers will be getting some discounts on their purchases as far as tillers and tractors are concerned that is in the first agreement and even our other agreement also the warehousing there we are giving some concession in interest rates and concessions for the those who want to preserve their goods and all that so these are efforts to increase the agricultural advances. Our target is 18% and we are at 16.16% now. So going forward we have to reach this and this is our earnest efforts and we are going to the minutest minute sectors of the agri economy and then seeing that every farmers are in our command area are financed and whatever his needs are met and government is also considerate to give us the benefit of that interest subvention there also we are trying to push our advances that is crop loans below Rs 3 Lakhs there also we are making a headway and with all these I think our direct agricultural advances shall increase and we will reach and surpass 18%.

Ganesh S. Shetty – Mumbai

Sir my third question is regarding unbanked population of rural Karnataka. Sir this government initiatives are also pointing towards financial infusion of more and more rural people into the banks only so what effort Karnataka Bank is taking so that you know we get more of unbanked population which will add to our business as well as it can reduce our resources cost, can you please give us some color on this?

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

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Yes we Karnataka Bank is always pushing our business in the rural and semi-urban sector. In fact bank's percentage in rural and semi-urban stands at around 47% that being the case our business into these areas are increasing and now the branch opening authorization license policy of RBI is that we have to open 25% of our total branch expansion in this unbanked area. So definitely we will do that and last year we have opened about 30 ultra small branches you know the definition of 'ultra small branches' where it is attached to a one branch and the people from there visit these places with the help of BCs we are giving service to these customers so we are into it. we are fully compliant of all the instructions regulations and guidance of Reserve Bank as far as financial inclusion is concerned and we are also brisk in going for Aadhar related distribution of the disbursements of money there also we are active and all these we have taken into consideration and we are active in this financial inclusion.

Ganesh S. Shetty – Mumbai

Sir my last question is regarding our operating performance. This year we are going to recruit 920 numbers of employees and this quarter we had slightly lesser operating profit then previous one and we are also adding around 75 branches so is there any chance that we can get slightly below our operating profit because of more employee cost and with related to that I have one more question, is our bank trying for or looking for any opportunity for inorganic growth this is a question from me sir. Thanks a lot and have a nice time sir.

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

Yes, regarding your first question of operating profit, in fact our operating profit is in line with our guidance of Rs 900 Crore for the year, what has happened is last year's operating profit was as I told you it is inclusive of one windfall profit on sale of investment if you remove that our operating profit growth is around 20% so with this we will definitely reach our target of Rs 900 Crore of operating profit and it is in line. As far as the employment of the personnel are concerned as you know we are targeting opening of around 75 branches and also increasing the business of around 20% - 25% that being the case this much of recruitment is quite necessary and employee cost increase also if you take one off amount in the last quarter of the last year that is on superannuation benefits otherwise employee cost increases also at a same level and I think all these expenditure are under control and we will reach our targeted operating profit. Thank you.

Ganesh S. Shetty – Mumbai

Thank you sir, have a nice time.

Geetha– Moderator

The next question comes from Ms. Ritika Dua from B&K Securities Mumbai. Ms. Dua you may ask your question now.

Ritika Dua – B&K Securities – Mumbai

Sir firstly can you just confirm the NIM for the quarter again is it 2.33?

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

Yes.

Ritika Dua – B&K Securities – Mumbai

That is comparing to 2.17 March?

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

Exactly.

Ritika Dua – B&K Securities – Mumbai

Sir secondly on we have got the yield on advances what is the cost of deposit numbers for this quarter?

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

7.88%

Ritika Dua – B&K Securities – Mumbai

7.88 and this is versus sir, what was in the previous quarter?

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

7.94.

Ritika Dua – B&K Securities – Mumbai

Okay sir, largely the NIM improvement which we have seen quarter on quarter is mostly because of our lower cost of deposits?

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

Yes.

Ritika Dua – B&K Securities – Mumbai

Sir on the restructuring front, can you just repeat the fresh restructuring number again?

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

This quarter fresh restructuring was around Rs 88 Crores.

Ritika Dua – B&K Securities – Mumbai

Okay but Sir this is a quite lower than what probably we have guided like higher number in 4Q we had a higher pipeline what we have guided in 4Q?

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

In fact I have told to one of your colleagues that next quarter it will be around Rs 80 to Rs 100 Crores after that I don't think there will be any restructuring further.

Ritika Dua – B&K Securities – Mumbai

Sir on the margins front like just on the call you had guided for a 2.75 numbers wherein we want to take our yield an advances higher to 12.35 what kind of a gold loan book are we building in this number?

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

Yes gold loan should increase. This year we are targeting at least 20% to 25% growth in gold loan and the atmosphere is also very conducive and if the monsoon is regular and then I think most of our semi urban and rural areas will go for gold loan growth and gold loan last year it was 10% this year definitely we want to increase to at least 25%.

Ritika Dua – B&K Securities – Mumbai

Sir just one last clarification like on this Agri book is the reading correct that we have grown 17% quarter-on-quarter?

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

Y-o-Y is it?

Ritika Dua – B&K Securities – Mumbai

No sir. I think Y-o-Y is 20% Y-o-Y and I think quarter on quarter is 17%?

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

No Y-o-Y growth was agriculture direct was 11.66%.

Ritika Dua – B&K Securities – Mumbai

Sir can you just help with the agriculture number for this quarter, previous quarter and the corresponding quarter in the last year?

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

Direct agriculture it has increased from last year's first quarter Rs 3160 Crore now it is Rs 3573 Crore Y-o-Y growth is 13.09% and agriculture indirect have come down from Rs 875 Crore to Rs 649 Crore but now we are getting the benefit of RIDF if we get the benefit always the indirect agriculture advances the number will be around Rs 1069 Crore and compared to Rs 875 Crore last year. See now we are at 16.16% of the total ANBC with our direct agriculture advances increase we will reach 18%, no problem.

Ritika Dua – B&K Securities – Mumbai

Sir lastly on the fall in the yields and advances this quarter is it something which is like our corporate book has grown 5% quarter-on-quarter so have we probably lending to some AAA rated corporate or something?

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

You are right. We have lent to AAA Corporates where the interest rates are set at around base rate or base rate plus 0.5 which has given us a lower yield and these are all short term loans which we would have financed, going forward when we get opportunities definitely these loans will be spread to the higher yielding advances and yield on advances will be in line.

Ritika Dua – B&K Securities – Mumbai

Alright sir. That is it from my side. Thank you Sir.

Geetha – Moderator

The next question comes from Mr. Nishid Shah from Ambica Financial Cap Consultants Private Limited from Mumbai. Mr. Shah you may ask your question now.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

Thanks for the opportunity. Good morning Mr. Bhat.

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

Good morning. How are you sir?

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Nishid Shah – Ambica Financial Cap Consultants – Mumbai

I am fine. How about you?

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

Fine.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

Well, it was good to see your numbers were quite good only thing what I wanted to understand from you was how do you see the year shaping up in terms of net interest margin and also in terms of what you are targeting in terms of the net NPAs?

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

It looks positive barring some few accounts which slipped in this first quarter. Going forward I think we will be on target as far as the gross NPA is concerned. I have already told in a beginning it will be around 2.5% and lot of efforts are required no doubt but close monitoring and due diligence, I think we will control these slippages in one aspect and also increase the recovery. In both sides if we increase our efforts, we will reach around 2.5% gross NPA and also NIM is around 2.3% it is hovering around 2.3% quite now last since one year we want to have a push up and see that NIM is around 2.75% I know it is difficult but we will try our level best when the NPAs are under control this NIM will get automatically adjusted.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

So net NPA what is the target gross you said 2.5% net?

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

Target is less than 1% we have lined up some assets sales as I had already told you, we should get better results.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

Now currently your net NPA is at 2.37 in fact it has moved up a little bit in this quarter, so you are basically expecting a lot of recoveries to happen or upgrades you expect?

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

Recovery is through OTS, recoveries through asset sales, all these we are planning, some accounts are in the final stage of SARFAESI for auctions and all that all these should come through and we should have some upgradations also .I think we will be at least nearer 1% of net NPA figure.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

On the net profit what is the kind of a target, last year you achieved 311?

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

Going forward it will be into four of what we have published in the first quarter.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

So you are expecting almost around 500-odd Crore and but one point, which I wanted to check with you is I mean obviously you must be benchmarking internally your performance and if I look at your 10 year performance actually you know most of the other banks like comparable banks like Karur Vysya, Citi Union Bank, YES Bank and all have performed

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extremely well on a last ten year basis even the bank Nifty has done substantially better on a last ten year basis compared to Karnataka Bank and I am sure you are aware about these so where do you see and some places lot of catch up game you need to play and you have been working very hard on that so when do we see that results coming in?

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

See the results are judged by the return on asset. We have shown that we could reach 1% return on asset this quarter. That is a beginning and going forward see last March 2013 we were at 348 Crore net profit. It dipped into Rs 311 Crore by the March 2014, reasons we have explained that we had to substantially provide for superannuation benefits. So all these commitments we have reached, but for that, we would have reached net profit figure of around Rs 400 Crore last year, same way Rs 348, 400 and now going forward you yourself have told that we are at Rs 500 Crore and we will be catching with these other peer banks shortly and you know that we had that legacy of RIDF that also is getting extinguished year-after-year so this will give us a better result as far as the yield is concerned so all put together I think the better days are ahead. *"Achey dine aaney wale hain."*

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

No I am pretty sure on that and our full support is there and we know you're your team is working very hard but at the end of it you know from the investors point of view the terms do matter and last year obviously was a stressful year for the entire industry and our bank cannot be an exception to that having said that do you expect to do capital raising during this year or you can manage it with the internal generation and or do you have any plans on capital raising?

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

Our capital adequacy is around 13% and we are expecting a net profit around Rs 450 to Rs 500 Crore. That is enough for our internal accrual is enough for meeting the requirement. As of now when I look at the future the capital raising is not required for this year definitely. We had planned. Our ICAAC Committee has already met took a decision not to raise any capital this year. So next year we should see the growth because if we reach around 73% the CD ratio by the year end our credit will be somewhere near around Rs 35000 Crores so 2015-2016 we may be required to raise capital definitely.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

But I think by that time the environment will be far-far better and if RBI starts to reduce rates or even if the first reduction in the rates starts happening then the bank also will be in a far better position isn't it? What would be the average G-Sec tenure and yield on that G-Sec portfolio right now?

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

Our G-Sec portfolio the yield has improved and adjusted yield has improved from see the year end figure was 7.34% that is March 2014 sequentially it has improved to 7.87%. You cannot take the last year's first quarter because there was a huge investment gain. Actually it was 9.1% there was one off receipt so if you compare sequentially it is from 7.34% we have gone up to 7.87%.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

The tenure?

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

The total duration is 3.58. ASF and HFT is 2.25 and HTM is 4.36. Also we have improved our RIDF yield 4.51% to 4.71% with a base of around Rs 2200 Crores here also we are going to gain this time, this yield may somewhere settle at around 5% this year, all these will add to the interest income increase.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

Your NIM target of 2.75% do you expect by Q3 you should be at 2.75%?

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

By the end of this fiscal.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

Okay so average NIM for the year what are you targeting?

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

Around 2.5%.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

That itself is good enough and last year was how much Sir?

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

Last year it was hovering around 2.35 only.

Nishid Shah – Ambica Financial Cap Consultants – Mumbai

So you expect 15 BPS improvements on the NIMs going forward in this year. Thanks a lot. This is from my side. All the best to you and good luck for the years.

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

Thank you.

Geetha– Moderator

The next question comes from Mr. Abhishek Agarwal from HDFC Life, Mumbai. Mr. Agarwal your line is open, you may ask your question now.

Abhishek Agarwal – HDFC Life – Mumbai

Just wanted to understand on the incremental lending how much is on account of balance transfer and how is the yield behaving in this portfolio?

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

Incremental lending I think as against the growth of around Rs 2000 Crore of deposits accrual in this quarter. We could lend at around Rs 1500 Crore formed 70%.

Abhishek Agarwal – HDFC Life – Mumbai

What would be the balance transfer out of the 10 Crores of lending?

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

No I could not catch up your question, what is that balance transfer means?

Abhishek Agarwal – HDFC Life – Mumbai

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Acquiring a customer from another bank?

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

Takeover accounts are very few, see because takeover unless we make a good due diligence you have takeover and at this juncture where all bankers are going for credit, no bankers will leave good accounts, so if we make our efforts to takeover we may end up taking bad accounts and now with the advent of this (CRILC) we can very well view the stress level of the accounts and after looking at that we only go for takeover. Last quarter we could not go for much takeover of accounts. We are joining the consortium in some consortium accounts otherwise it will direct loans which we are entertaining. That is all.

Abhishek Agarwal – HDFC Life – Mumbai

That is all from me.

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

Thank you.

Geetha– Moderator

The next question comes from Ms. Sneha Ganatra from Subhkam Venture Mumbai. Ms. Sneha your line is open; you may ask your question now.

Sneha Ganatra – Subhkam Venture - Mumbai

Sir your focus is to improve average quality. How do you looking our provision coverage ratio improving? Second would be where do you see cost to income ratio where we are focusing on the improvement and the NIM and the third would be the ROA and ROE?

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

The provision coverage ratio now stands at 49.59% almost 50%. It was 51.24% last year and going forward will be around 50% to 55% and we have substantial substandard advances in our portfolio and naturally the provision coverage ratio comes down because substandard advances attract only 15% of the provisions. Then cost to income ratio has also come down. In this quarter it is 41.62% compared to 43.56% and you know the benchmark is 40% and we may end up with the average cost to income ratio of around 45% in this fiscal. Then ROA we are at 1.02% our guidance is 1%. This quarter we have reached and we want to sustain this level throughout.

Sneha Ganatra – Subhkam Venture - Mumbai

How much amount we are planning to sell to ARCIL?

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

Around Rs 80 Crore to Rs 90 Crore in this quarter and going forward we will have some, we will identify some more accounts and we will take a balanced view whether to sell or whether to go for OTS all these but immediately we may be selling around Rs 80 Crore from our NPA portfolio and another Rs 30-40 Crore in our written off portfolio.

Sneha Ganatra – Subhkam Venture - Mumbai

Okay so in all around 120 Crores?

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

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Rs 120 Crore.

Sneha Ganatra – Subhkam Venture - Mumbai

Thank you sir.

Geetha– Moderator

Participant who wish to ask question may please press “*” “1”. At this moment there is not any question in the queue I hand over the floor to Shri P. Jayarama Bhat for the final remarks. Over to you sir!

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

Thank you. Thanks for all the enquiries and your suggestions and our bank is going forward destined to reach the coveted targets and first quarter we could show a good net profit increase by about say 29% and we could reach Rs 121 Crore this quarter. This was the highest net profit which we earned in any of the previous quarters and going forward we have to take this guidance and see that our net profit is somewhere near Rs 500 Crore by the end of this fiscal and with this strong note I want to close this concall. I seek your best wishes for our better growth. Thank you.

Geetha– Moderator

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