

**Karnataka Bank Limited**  
**Q1 FY20 Earnings Conference Call**  
**July 15, 2019**

**Moderator:** Ladies and gentlemen, welcome to the Earnings' Conference Call of Karnataka Bank, hosted by Monarch Network Capital Limited. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. 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 touchtone phone. Please note that this conference is being recorded. I would now like to hand-over the conference over to Mr. Alok Shah. Thank you and over to you, sir.

**Alok Shah:** Thank you. Good evening all. On behalf of Monarch Network Capital, I welcome you to discuss Karnataka Bank's Q1 FY20 Earnings' Call. We are pleased to host the Senior Management of the Bank, represented by their MD-Mr. M.S. Mahabaleshwara, COO-Mr. Y.V. Balachandra; Mr. Muralidhar K Rao – CFO and other senior management team. We will start the call with initial comments about the results and the future outlook of the Bank, post which we can open the floor for Q&A. So, without taking much of time, I will hand over the call to MD sir. Over to you, sir.

**M.S. Mahabaleshwara:** Good evening to all of you. Welcome to the earnings con-call of Karnataka Bank for the Q1 of FY20. I am accompanied by our Chief Operating Officer, Mr. Balachandra YV, as well as CFO, Muralidhar Krishna Rao and other General Managers of our Bank. The earnings as well its analysis is already uploaded to our website. And accordingly, I will make a brief presentation of the Q1 earnings. And thereafter we will devote much time for the one-to-one interaction as well.

The net profit, as you all know, has grown at a rate of 7.46% YoY and stood at Rs. 175.42 crores and is an all-time high quarterly net profit for Karnataka Bank. Compared to March 2019, which was at Rs. 61.73 crores and on June 2018 which was Rs. 163.24 crores, now June 2019 it is at Rs. 175.42 crores. As far as Operating Profit is concerned, YoY there is a dip by 5.12%, but compared to March 2019, which was at Rs. 324.23 crores, now it is at Rs. 350.01 crores. This is of course, mainly because of the increased Yield on Advances, which was at 9.26% as of March 2019, now it is at 9.32%. Similarly, about a year back the Yield on Advance was 9.29%. And as a result, the interest income went up by 12.56%. And of course, interest expenses also has gone up by 16.05% that is the reason why our NIM was also slightly affected. NIM is at 2.81% as compared to 2.87% as of March 2019. In NII, there is a growth of 5.55% and fee-based income also grew by 17.24%. In the total income, the growth is 13.16% and under the establishment expenses, the salary went up by 17.72% and superannuation benefits in June 2018 we had a write back of Rs. 21.42 crores whereas this year, additional provision has been made to the extent of Rs. 21.63 crores. So, the net effect is to the tune of around Rs. 42 crores.

Return on Asset for the March 19 quarter was at 0.32% for the three months, whereas for the current June quarter it is at 0.88%, whereas about a year back, it was at 0.91%. Return on Equity for the March quarter it was 4.29%, for the year ended March 2019 it was 8.53%, whereas for the current quarter it is at 11.95%. The gross NPA is at 4.55% as against 4.72% about a year back,

and 4.41% as of March 2019. In fact, the total amount outstanding as GNPA was at Rs. 2,456.38 crores as of March 2019, now it is at Rs. 2,437.53 crores. Even though amount wise it has come down, percentage wise slightly it has gone up because of the base effect, as our overall advances has slightly come down to around Rs. 2,500 crores worth corporate bulk advances which was carrying the comparatively low interest rate, which we had exited from that and as a result of this percentage changed.

Net NPA is at Rs. 1759.77 crores, and this constitutes 3.33% of the advances and it was at 2.95% in March 2019. The Net NPA, percentage wise has slightly gone up, of course this is consequential one, and the reason is that, around 57% of the NPA is under the substandard category. The gross NPA addition for this particular quarter is Rs. 526.02 crores. Of this the major addition is from one of the NBFC accounts, i.e., Reliance ADAG Group wherein, we had Rs. 137 crores exposure, we had treated that entire as NPA during the current year. And there were some MSME advances around Rs. 119 crores, followed by agricultural advances of Rs. 74 crores, these are all small accounts in the MSME as well as agriculture. And the big account after the ADAG Group is, one toll collection account, i.e. infrastructure, Rs. 38.77 crores. Otherwise, there is no big NPA additions during this particular quarter. As against the total addition of Rs. 526 crores, there is also a reduction to the extent of Rs. 544.87 crores, mainly because of recovery of about Rs. 154.36 crores and technical write-off by providing full provision on the balance amount.

The slippage ratio is around 0.99% and if we exclude the Reliance ADAG Group account, the slippage would be around 0.73%. Our slippage for the last full year was 3.16% and the March quarter alone we had a slippage of 0.80%. In June 2018 it was 0.59%, now it is at 0.99%. The NPA provision cumulative for the last full year was Rs. 810.55 crores, whereas June 2018 quarter it was at Rs. 870.86 crores, now it is at Rs. 648.36 crores.

The credit cost is at 0.43% as against 0.40% as of March 2019 quarter and 1.39% for the last full year and June 2018 it was 0.41%. So, our Provision Coverage Ratio is slightly above 58%, i.e. (58.08%), as of June 2018, it was 57.21%. The Cost to Income Ratio, which was 57.97% for the three months ended March 2019, for the full year it was 50.13% and now it is up to 52.66%.

The CAR is at 12.70% and we have the security receipts portfolio of around Rs. 408.64 crores, last year it was at Rs. 428.43 crores, however, there was some cash recovery. And the turnover has grown at a rate of 9.85%, deposits grew at a rate of 9.24%, advances grew at a rate of 10.66%. And as a result, our CD ratio now set to 77.08% as against 76.10% about a year back.

As regards to CASA, it was at 27.35% about a year back, now it is at 27.40%. As I said, Yield On Advances improved to 9.32. We have been able to contain cost on deposit at below 6%, (5.97%). As a result, interest spread is 3.35%. The restructured advances, which was at 872.16 crores, now it is 659.40 crores.

KBL Vikas, i.e., the Transformation Journey, has now completed 18 months and the sales focus is institutionalized with more fleet-on-street service and of course, generation of leads by alternate sources like DSA, BSA, analytics, etc., now initiated. RSE concept, i.e., Regional Sales Executive concept is deployed across India for both asset and liability marketing. And I should say that KBL Vikas is modernizing the core of KBL with drastic transformation of process and customer experience and step change in the in-house digital and IT capabilities.

We have launched a digital tool i.e., KBL FORCE for end-to-end lead management and established Digital Centre of Excellence for end-to-end customer journey, especially in the area of advances.

As a result, now Karnataka Bank has the capabilities to sanction the housing loans within just 20 minutes. So, that is the speed with which our DCOE and customer journey is functioning. And we have also totally revamped our collection process by having the Regional Collection Hubs. And this is also supported by a digital tool called 'KBL Collect Plus'. This is helping us in reducing the stress, which means SMA0, SMA1 and SMA2 and we are in a better position to manage our NPAs as well because the supply side has been taken care of as far as the NPA buildup is concerned.

The loan sanction process is totally centralized, so also the liability accounts opening, i.e. the current account, SB account is centralized. And we have also started Contact Center which is operating at two times the efficiency of our earlier setup. We have made certain changes in organization structure to ensure that it is future ready. Therefore, we have now two CGM level officers, one is designated as Chief Operating Officer, and other one is designated as Chief Business Officer. In fact, the credit department is now having three verticals i.e. Credit Marketing, Credit Sanction and Credit Monitoring. And a revised Performance Management System for the employees along with key result areas is also launched. Going forward, we will be utilizing the MSME loan journey and we will be initiating the digital marketing and CASA accounts opening through tab banking. And to certain extent, we will also take up rebranding exercise for Karnataka Bank.

So this is in nutshell about KBL Vikas journey. As far as our future business growth plan is concerned, we should be able to adhere to about 17% credit growth as already envisaged for the current Financial Year. And the GNPA, most probably, it will be below 4%, NNPA by 2020 we will be ensuring that it will be below 3%. And the slippage ratio also, I am optimistic that it will be below 3%. And the credit cost could be somewhere around 1%. These are some of the business highlights.

And at the same time, we would continue to focus on the retail and the MSME, and our dependence on the bulk business, especially on the asset side would come down. On the liability side we don't have anything. On the asset side we had (in the past) taken some exposure in high rated corporate in the past and gradually we will be reducing it so as to have a better interest earning advantage. Very recently we have launched a credit campaign which would help us augment our credit portfolio with retail as well as the MSME advances.

So with this brief note on our Q1 earnings, if you have any other clarification, you are welcome.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. We have a questions from Mr. Jai Mundra from B&K Securities. Please go ahead, sir.

**Jai Mundra:** Sir, first question is on asset quality. So, I mean, now this time around we have given the entire breakup of BB and below book, and off which part of that has already slipped. So, first wanted to understand how do you see the BB and below book which is still standard?

**M.S. Mahabaleshwara:** I have further breakup also, in this 'c' category we have one account with exposure of Rs. 26.76 crores, which is continuing as standard. And in the 'D' category the present balance is Rs. 1,037.77 crores with 25 accounts, of that, 8 accounts are already treated as in NPA, Rs. 430.11 crores. So all the remaining accounts, even though they are in the 'D' category, they are all performing advances. And one account which slipped to this 'D' category to the current non-performing advances i.e. one tollway collection account with an exposure of Rs. 38.75 crores. Rest of the accounts are continuing as standard advances only.

**Jai Mundra:** No, I wanted to understand do you think this out of let's say 'D' category account 1,037, of which 430 is already slipped, so roughly Rs. 600 crores remain. How do you assess the health of these 600 crores portfolios?

**M.S. Mahabaleshwara:** One account- Sintex Industries with an exposure of around Rs. 95 crores is doubtful during the current year and we are closely watching the position of Dewan Group also, where we have Rs. 165 crores exposure. Those two accounts are the probable slippages for the current quarter.

**Jai Mundra:** And similarly sir, let's say, in 'B' category you have Rs. 630 crores, Rs. 640 crores, off which Rs. 85 crores has already slipped, so there is still let's say Rs. 550 crores exposure there. Do you believe any weak account there?

**M.S. Mahabaleshwara:** No, there is actually one account that is in a ready-to-eat food category, that has already slipped and the resolution is likely to happen during the current quarter. There the exposure is around Rs. 72.89 crores and this account is likely to be upgraded without any haircut during the current quarter. And rest of the accounts, even though they are in the 'B' category, all along they have been getting the same rating and further down-gradation is not expected. Their exposure is also very small. So it is in the range of Rs. 5 crores, Rs. 10 crores like that, we don't have any big exposure in the 'B' category. I have the list of all those accounts and all along they have been there as 'B' only. But no threat from that particular segment.

**Jai Mundra:** Okay. Sir, is there any account which is let's say more than Rs. 100 crores which is in BB, B, C, D category, which is still standard?

**M.S. Mahabaleshwara:** BB more than Rs. 100 crores we don't have. We have only Dewan Housing in the D category.

**Jai Mundra:** Dewan I believe last quarter you mentioned there was around Rs. 200 crores plus exposure, so that was alone plus...?

**M.S. Mahabaleshwara:** No, the exposure under the Dewan Housing Finance is 0.19% of our total advances, that comes to around Rs. 165 crores. Other one is Aadhar Housing Finance Limited where the exposure is around Rs. 56 crores, it is fully serviced.

**Jai Mundra:** Sure. That is no more Dewan anyway.

**M.S. Mahabaleshwara:** It is not, because entity is also totally different. But the important thing is, it is serviced up to date.

**Moderator:** Thank you, Mr. Mundra. We have a question from Mr. Pranav Gupta from Birla Sun Life Insurance. Please go ahead, sir.

**Pranav Gupta:** Could you provide some color on the negative tax rate that we had this quarter? And also the GNPA, NNPA guidance. So, you are talking about NNPA of only 3%. So, I am trying a very low coverage, what is the view there?

**Muralidhar K Rao:** As MD has already discussed it, we have made a provision for NPA to the extent of around Rs. 230 crores, which are eligible for deduction under the Income Tax Act. In addition to the above, we have also written-off amounts to the extent of Rs. 390 crores, which are eligible for deduction under the Income Tax Act. Because of these deductions, even though our

profits, as per the Profits & Loss Account is Rs. 179 crore, our taxable profits comes negative. The amount treated as taxable loss, will be available to be adjusted in the subsequent profits and hence, treated as deferred tax asset as per the accounting standard. That is where the tax liability comes negative. As this quarter progresses, this negative will get converted into positive by year end, because this entire benefits of write-off and provision specifically be available in the first quarter of the financial year, thereafter it starts declining. On an average, the tax comes to 20% to 25%, by year end it would be 22%, now it is 25%. Pranav, what was your second question?

**Pranav Gupta:** I wanted to get an understanding on what kind of coverage you are looking at, because if GNPA is 4% and NNPA of 3%, just implying a 25% coverage. So, what is the view there?

**Muralidhar K Rao:** See, including technically written off portfolio the PCR now stands at 58%. So most probably we may take the PCR to a level, including technical written-off, to around 60% by this year end. And as I said, around 57% of this NPA portfolio is now substandard category, wherein, the provision requirement as per IRAC norms is just 15%. So we will take a holistic view, most probably the PCR may touch 60% during the current FY.

**Moderator:** Thank you, Mr. Gupta. We have a question from Mr. Ritesh Bhagwati from Rockstud Capital LLP. Please go ahead, sir.

**Ritesh Bhagwati:** Can you give us the breakup of the provisions that we have recorded in this quarter which amounts to roughly Rs. 200 crores? I just needed a breakup of that. That's my first question.

**Muralidhar K Rao:** The first is a provision for diminution in the fair value on restructured advances, so there is write-back of Rs. 1.20 crores during the current quarter. Provision for non-performing advances is Rs. 228.32 crores. Provision for standard advances and investments, there is a write-back of Rs. 5.49 crores, provision for depreciation on investment and SR, there is a write-back of Rs. 21.36 crores, provision for current and deferred tax and wealth tax there is a write-back of Rs. 26.55 crores, other provisions at Rs. 0.87 crores. So for 30th June, 2019, total is Rs. 174.59 crores.

**Ritesh Bhagwati:** Okay. By any chance can I get a breakup of the same in terms of the advances, breakup that we have like retail, mid-corporate and corporate? Like where were the maximum provisions applied?

**M.S. Mahabaleshwara:** Right now not available. Please send me an email. We have that data, I think we should be able to provide that. You wanted ticket size basis, I believe?

**Ritesh Bhagwati:** Right.

**M.S. Mahabaleshwara:** We will provide it, please send an email.

**Ritesh Bhagwati:** Okay. So, my second question is follow up of that. So just wanted to know what has led to drop in profits after provisions under retail segment? That is what I am noticing in previous quarters also, that our profit after provisions under retail segment has been very weak. So just wanted to understand what has happened over there.

**M.S. Mahabaleshwara:** Segment wise that is the retail corporate...

**Ritesh Bhagwati:** We recorded Rs. 6.6 crores on a revenue of Rs. 600 crores.

**M.S. Mahabaleshwara:** So, what is the reason for that? Let me come back with it.

**Ritesh Bhagwati:** Okay. So, these provisions that we have recorded that is Rs. 200 crores, is this the current run rate expected for this entire year, so roughly around Rs. 800 crores is kind of the provision that we see for FY20 or it is going to be lower than this?

**M.S. Mahabaleshwara:** Yes. Our credit cost as I said, last year, it was at 1.39%, this year it could be in the range of 1%.

**Moderator:** Thank you. We have a question from the chat from Mr. Bhavik Shah from B&K Ssecurities. Please go ahead.

**Bhavik Shah:** Sir, first with respect to the loan growth, we are targeting 17% by this year end, sir what would be the drivers broadly and what mix do you see between retail, mid-corporate and corporates?

**M.S. Mahabaleshwara:** As far as the sectors which had seen good growth is (i) the housing, which has grown at a rate of 23.61% (ii) equipment loans to contractors, this has shown a growth rate of 42.55%. Similarly, agri-ancillary activities have shown a growth rate of 24.03%. And of course, car loans portfolio grew to a certain extent, that is at a rate of 8.80%. So, these sectors would continue to be the drivers of the growth, along with MSMEs. Even though last year MSME growth is 4.34%, this time the growth has already started during the Q2 and definitely we will be able to register double digit growth under MSME as well. As far as the retail and corporate sector is concerned, as per Basel III the retail up to Rs. 5 crores is constituting around 45.28% and rest above Rs. 5 crores exposure it is 54.72%. But up to Rs. 5 cross as I said it is 45.28%, but if you look into the mid-corporates that is Rs. 5 crores to Rs. 100 crores, this is contributing about 27.29% whereas above Rs. 100 crores exposure this is 27.43%. So, since we are focusing more on the retail and the MSME and we are optimistic that the advances growth could be in the range of around 17% plus during the current financial year

**Bhavik Shah:** So, basically as in if I see the retail is around 45% as per the Basel classification, so considering retail and MSME which is the next bucket is 27%, we constitute around 72%. So, can I see them going up to 75% to 80%?

**M.S. Mahabaleshwara:** 75% is quite possible because we are not focusing more on the big ticket advances. The focus would be definitely on the ticket size of up to Rs. 100 crores.

**Bhavik Shah:** Okay. And with respect to operating expenses, so we have a planned to open 24 branches, so what is the update on that and in what cost to income ratio do we see for the full year?

**M.S. Mahabaleshwara:** Yes, this is the minimum number of branches that will be opening during the current year. Rather than that what we are focusing is reducing the area of the branches premises area, because as of now around 79.7% transactions have already migrated to the digital channels and we were planning to have about 80% by this year end. So, this is a very good opportunity for us to reduce the area of the branches and this exercise we have already taken up. Second one is, whatever new branches that we have planned, that is 24 branches, there also the area per branch is in the range of around 800 to 1,000 square feet of carpet area. So we will not be spending more on that CAPEX side also. And generally, the branches that we are opening as per

the branch licensing policy of the regulator, we have to open 25% of branches invariably in the rural unbanked areas. But there what we are doing is, we are opening these branches with a small area of around 500 square feet and they are managed by just two personnel and that is how the viability is being ensured. Other than the rural and the unbanked area branches, generally branches are breaking even in about minimum 18 months period, because we have identified those centers where the business growth is very promising. So, we are going for that type of branches.

**Bhavik Shah:** Sir, the cost to income ratio currently we have around like 51% approx., as do we see it going up to like 53%, 54%?

**M.S. Mahabaleshwara:** No, most probably it may settle around 50%, (+/-2%), because it was at 57.97% for the three-month ended March 2019, 50.13% for the last full year, this year first Quarter it is 52.66%. I expect it to be around 52% for the full year.

**Bhavik Shah:** And sir one thing, this quarter we have seen CASA balance going down, the CASA has degrown. So, we are opening branches, the CASA traction I am not sure how is it picking up at your end? And then how do we see the breakeven of branches happening, so can you give me some color on the CASA traction.

**M.S. Mahabaleshwara:** Yes. Generally during the first quarter this is a common thing, because in the current account and all the contractors, especially they would maintain some balance during the March quarter, and thereafter they would start utilizing. And similarly, in the SB account also that is the trend. Of course, CASA as a percentage, it has slightly gone up to 27.4% from 27.35%. We have launched some new initiatives in the CASA, i.e., CASA premium accounts we have started canvassing and we have also deployed about 25 members all India CASA team itself under the leadership of CASA National Head. And apart from this, we have undertaken a special CASA campaign. With that, we are optimistic that this percentage would go up in the days to come. Added to that, our digital products had wide acceptance and that would also help us in satisfied customers maintaining more and more balance in their SB account. So, most probably, we will have a reasonably comfortable CASA position by this year end because of these initiatives.

**Bhavik Shah:** And sir, last question. So, what CASA level do we see by the year end? And considering we are shifting more towards below ticket size, I am assuming the yields will be much higher. So, what yields do we target and NIMs do we see?

**M.S. Mahabaleshwara:** Yes. Our effort is to contain the interest expenditure and increase the interest income, all our efforts are directed towards that. Therefore, we are focusing more on CASA. Since we are in the first-generation private sector bank category, we hardly get any government CASA and we have to entirely depend on the general public. So all these banks who are entirely depending on the general public, generally the CASA percentage is at around 29% to 30%. Second one is, if you look at our liability portfolio, we hardly have any bulk deposits which are accepted at higher than the current rate. So that is how we are managing our liabilities. And as a result, as I said in my opening remarks, our cost of deposit is well below 6%. So most probably we should be able to manage it at that level. And since the interest bearing advances are getting realigned, hereafter definitely there would be a positive traction as far as the yield on advances is concerned. And that should help us in improving our spread as well as the NII going forward.

**Bhavik Shah:** Any internal targets for the NIM? And when do we see the ROA touching to 1%?

**M.S. Mahabaleshwara:** ROA, most probably it should touch during the current year itself, because it all depends how well we will be able to manage our slippages. So, our internal expectation is that we should be able to touch the NIM of 3% by March 2020. Also, the ROA of 1% by March 2020. I think by September 2019 it would be more clearer whether we would be moving ahead very strong in that direction. But definitely to be better than the present position.

**Moderator:** Thank you, Mr. Shah. We have a question from Sneha Ganatra from Shubhkam. Please go ahead.

**Sneha Ganatra:** Sir, just wanted to know on the asset quality which you are targeting 4% and 3%, so slippages run rate would be around Rs. 300 crores per quarter considering the Dewan exposure as well as this Sintex exposure?

**M.S. Mahabaleshwara:** Yes. There are two advances where I am not very sure. One is the Syntex another one is Dewan Housing, that itself would be around Rs. 200 crores. Apart from that there are no major accounts, but the small accounts and all, so around Rs. 300 crores in that range it could happen. But simultaneously, we are aggressively focusing on the recovery also, so recovery targets are also given and the recovery teams at each of the regional offices have been strengthened. Whatever that Rs. 300 crores that you are projecting, this is the gross slippage, not the net slippage.

**Sneha Ganatra:** Yes, I am focusing on the gross slippage only. So we are expecting simultaneously same amount of the recoveries an update?

**M.S. Mahabaleshwara:** Yes, it should happen. That is why I am optimistic that we should be able to hold on to this position. And percentage wise, definitely it would be below 4%. This quarter also, one NBFC hit we have already taken, that is Reliance ADAG Group. In both accounts viz., Dewan as well as Sintex, ICA has already been signed, so resolution is also happening simultaneously, even though we take the hit during the current quarters, gradually in the subsequent quarters there could be some release as well, because ICA has already been signed.

**Sneha Ganatra:** Okay. And considering the 17% growth we won't acquire capital as of now, but any fundraising plans in future?

**M.S. Mahabaleshwara:** We are exploring all options. As of now our CAR is 12.70%, we have not taken any decision as far as the fundraising is concerned. So with this result as well as the September result, again, our ICAAC committee will meet at an appropriate time and depending on whether it is required during the current year or next year, the committee will definitely deliberate and take a forward looking decision.

**Sneha Ganatra:** Last question, how much is the SMA2 as of now?

**M.S. Mahabaleshwara:** As of June it was at Rs. 544.31 crores. Now, of course, interest has been serviced and at present it is at Rs. 344 crores, as against Rs. 734 crores as of June 2018, and Rs. 168.41 crores as of March 2019.

**Sneha Ganatra:** Sir, one request. Can you provide asset quality slippages during the presentation, it would be really helpful for us.

**M.S. Mahabaleshwara:** Asset qualities slippage?



**Sneha Ganatra:** Yes, all details in one slide that would be really helpful, as it is not available in the presentation, so I request.

**M.S. Mahabaleshwara:** Yes, why not. Please send an email informing the format in which you want, we will incorporate it.

**Moderator:** Thank you. We have a question from Mr. Pranav Gupta from Birla Sun Life Insurance. Please go ahead, sir.

**Pranav Gupta:** Sir, the MSME slippage which we had of about Rs. 120 crores this quarter, this is largely from the MSME dispensation which we had taken earlier?

**M.S. Mahabaleshwara:** Yes. Correct. And this dispensation scheme would not be there from August onwards. Now in the MSME dispensation, we have just Rs. 79 crores and around Rs. 30 crores may slip, but last minute effort is being made, otherwise that portfolio would get itself wound up by the end of August.

**Pranav Gupta:** Great. Thanks.

**M.S. Mahabaleshwara:** MSME portfolio during June 2018 it was in the range of Rs. 312.88 crores, came down to Rs. 145.16 crores, now it is at Rs. 79.43 crores.

**Pranav Gupta:** And just lastly, what is the residual exposure to Reliance ADAG after the slippage of Rs. 140 crores this quarter?

**M.S. Mahabaleshwara:** No other exposure.

**Moderator:** Thank you. We have a question from Mr. Sagar Shah from Alphalieu Wealth Advisors. Please go ahead, sir.

**Sagar Shah:** My first question is related to over loan growth, we have recorded around I think 5% loan growth in this particular quarter, if we compare year on year. So, I wanted to know that how is the demand.

**M.S. Mahabaleshwara:** Year on year loan growth is not 5%, it grew by 10.66%.

**Sagar Shah:** Sorry, I was calculating this QoQ. So, basically, how is the current demand environment, particularly for midsize corporates and retail division?

**M.S. Mahabaleshwara:** No, corporates we are not focusing, hence we are not keen in following the demand in that particular sector. In fact, about Rs. 2,500 crores plus corporate advances, even though it was slightly high rated, we had exited because of low yield. Our focus would be to focus on the ticket size up to Rs. 100 crores wherein, we have a very good opportunity of getting good yield. Good yield in the sense very reasonable yield compared to these corporate advances, without compromising the quality as well as the security coverage. So, that should help us in improving the yield on advances going forward. And that is our strategy by focusing more on the retail and the mid-corporate business. The demand is very encouraging and we have constituted a credit marketing team so as to get the required advances, in a preferred sector. And an exclusive General Manager is designated for credit marketing and some of the DGMs as well as AGMs. And I have a very strong team of around 20 executives who are in this credit marketing team, apart from good number of sales forces at the field level as sales officers for credit. Hence, I am

optimistic that we should be able to achieve this 17% growth. And this initiative, has started during the first half of the current financial year itself, because once we are able to convert this into business we should also be able to get more and more interest earning assets, that is the intention of all these activities which is front loaded during the current financial year.

**Sagar Shah:** So, basically you are targeting 17% growth?

**M.S. Mahabaleshwara:** Yes, for the current year in the advances portfolio.

**Sagar Shah:** In the advances portfolio led by the mid-size corporates?

**M.S. Mahabaleshwara:** Up to Rs. 100 crores.

**Sagar Shah:** Where you are finding higher yield on advances, this is what you are envisaging?

**M.S. Mahabaleshwara:** Not very high, very decent, at least double-digit interest rate. If you aim for the high yielding advances, then it may come at the cost of the quality, so we don't want to compromise the quality because now the NPAs all along consistently is under control. Since we are now aiming for further reduction of the NPA fresh addition should not result in adversely affecting this position. So, that precaution is taken. Anyhow, the external environment is not that great, we are equally aware of that. But for this type of ticket size, when the Bank is offering good service because of the brand name that Karnataka Bank is commanding and all such things, most probably we should be able to get this type of advances. That is the feedback that I am getting from my executives who are entrusted with this particular responsibility.

**Moderator:** Thank you. We have a question from Mr. Sudhir Mahajan, an individual investor. Please go ahead sir.

**Sudhir Mahajan:** Sir, just a small clarification. There was Rs. 390 crores write-off as mentioned, what is the breakup of it?

**M.S. Mahabaleshwara:** These are the corporate advance given for the infrastructure facility in the power generation sector. And majority of these advances were for the infrastructure and they were NPA for the last three to four years. The only thing is it is not actual write-off, it is only technical write-off by hundred percent provision, technical write-off in the sense, in the central controlling office books, we have treated it as write-offs, but it is continuing to be the advances at the branch level. In that, out of Rs. 390 crores, technical write-off is around Rs. 265.21 crores.

**Sudhir Mahajan:** Sir, last time spoken with you about this exposure to Religare, has that been totally taken care of?

**M.S. Mahabaleshwara:** Religare exposure is standard as of now and our total exposure to Religare i.e. there are two companies, one is Religare Finvest and the other Religare Housing. Put together the total exposure is point 0.11% and it is continuing. Even though the rating is 'D' for Religare Finvest and ICA has already signed but it is continuing as a standard asset as of now.

**Sudhir Mahajan:** Sir, and this Sintex which have a Rs. 95 crores exposure, you think that will get through?

**M.S. Mahabaleshwara:** Now ICA has been signed, so that means an honest and serious effort has already started regarding resolution of this crisis. Let us see, because this ICA has been

signed as per the June 7th circular of Reserve Bank of India. So, I am happy that timely action by means of ICA has already been initiated. So, that should take us to a logical conclusion that resolution will also happen expeditiously.

**Sudhir Mahajan:** But the interest is up to date, right?

**M.S. Mahabaleshwara:** No, they have not serviced the interest, so that is why there was a 30 day default. So, during that period itself ICA has to be signed and action is already initiated.

**Sudhir Mahajan:** Sir, could you talk more about your data mining that is being done so that whether we can get some results from the data mining side?

**M.S. Mahabaleshwara:** Lot of business-oriented action has been initiated. So, now you may be aware that all our branch people are acting as lead generators and we have more than 10 million existing customers. So depending on that data analytics, that is what we have started in great length. This type of data analytics is done at the central location and we are sharing that data or input to the field level people so that they could effectively approach the needy customers for various banking requirement. The second one, though it is not directly related to data mining, we have started the Digital Centre of Excellence wherein the entire customer journey is digitalized. I made a brief mention of the housing loan. In fact, ever since we started our transformation journey about 18 months back, prior to that to sanction one housing loan our branches were taking about 30 to 40 days. At that time the loan sanction was not centralized. Thereafter, we migrated to housing loan version-2 wherein, the entire housing loan sanction is centralized and the branch people are giving the leads and these leads are getting captured in the LMS. And as a result I had about 300 plus feet-on-street as sales officer for housing loan and a separate dedicated processing unit also at each of the regional offices. And with that we have been able to give the credit sanction for housing loan in about six to seven days turnaround time (TAT). Now this entire journey is digitalized and our people will reach out to the prospective clients, interact with them by ascertaining their credit score, their requirement etc. There is a separate business rule engine and a score which comes out of these processes. And as a result, we had planned to have this credit sanction of housing loan, except legal opinion and valuation within 20 minutes. And I am very happy to share with you that we have accomplished this task also and we will be launching this product in a big way across India. And we will not stop at there. My second journey is MSME, because as I said we are hoping big on the MSME advances and we will also be bringing this MSME sanctions under this loan digitalization. In fact, that has already started during the first week of this month and most probably by November end we should be able to launch the MSME digital products as well. So, in a nutshell, all our transformation initiatives are centered around digital, i.e. technology. Technology is the driving force of our transformation and now it is becoming a reality. Even the performance appraisal system of the staff and lead generation is digitalized. we have taken a big leap forward as far as the digital journey is concerned.

**Sudhir Mahajan:** It's good. In fact, I had just some time ago attended a presentation by the CEO of Bajaj Finance. And he said that for each customer, about 3000 parameters are monitored by them.

**M.S. Mahabaleshwara:** Great. That is the way forward for all banks. About a couple of days back you might have seen what Mr. Aditya Puri of HDFC Bank has narrated about the digital journey. I am happy that at Karnataka Bank we are taking equally good initiative and interest in technology upgradation. Of course, as you may be aware that we have already migrated to Fin10 core banking solution. Only few banks have already migrated to this. We have always been using this

technology as an enabler. And that is how I want to improve the efficiency across banking in Karnataka Bank, powered by technology.

**Sudhir Mahajan:** That you are doing a wonderful job. I hope to see the continuation of this job. Thank you.

**M.S. Mahabaleshwara:** Yes, it would pay a rich dividend. Thank you.

**Moderator:** Thank you, Mr. Mahajan. We have a follow up question from Mr Sagar Shah.. Please go ahead, sir.

**Sagar Shah:** Yes, my follow up question was related to CASA front, that as you have launched superior product especially for the current account and saving account holders. So, are you expecting an uptick in percentage in CASA front?

**M.S. Mahabaleshwara:** No, this is a premium product we have launched for the salaried class where the advantages are many, no doubt we will get the employers account as well as the employees account. So, that is the huge plus for us. And apart from that, for all these employees their additional needs of any personal loans, including the housing loan, car loan, as well as the insurance and other products, depending on their need can also be met, which is an additional advantage. So that the customer's engagement would further increase. That is what we have planned and that is why we have designed these specialized products especially under the SA category. As I mentioned, it is not just launching, it also depends how deep we penetrate, how we reach out to the needy customers etc. For that exclusive team is already formed. And they are really doing a great job. This area was earlier not being explored by Karnataka Bank, because all along what we did was something like servicing the walk-in type of customers. Now our people have started going out and that is getting us some positive responses. That is why I said we are optimistic that we should be able to take it to a decent level of around 29% to 30%. But it may not happen by March 2020, but definitely we will be moving in that direction.

**Moderator:** Thank you. We have a question from Mr. Mr. Ritesh Bhagwati from Rockstud Capital LLP. Please go ahead, sir.

**Ritesh Bhagwati:** My question pertains to one of the participant who had asked. So last quarter you had mentioned about over exposure to certain corporate groups, like as you have already mentioned about IL&FS and ADAG. So I just wanted to know what's the current status of the same in regards to how much have we provided or how much has been slipped, because I don't have that data at the moment? So for example, Reliance ADAG I think we were having 0.31% that is roughly around Rs. 150 crores Rs. 160 crores, so...

**M.S. Mahabaleshwara:** No, our exposure to Reliance ADAG, which is treated as NPA, is around 0.30%. And there we have had provision of 15%, and earlier slippage was in the ILFS Group, so in that ILFS Group our provision coverage is more than 72%.

**Ritesh Bhagwati:** Right. I think at last you mentioned you had provided to the extent of around Rs. 80 crores out of Rs. 156 crores of exposure, correct?

**M.S. Mahabaleshwara:** Yes.

**Ritesh Bhagwati:** And in terms of the Religare we have an exposure to the extent of Rs. 60 crores, is that correct, 0.11% of the AUM?

**M.S. Mahabaleshwara:** Less than that, yes.

**Ritesh Bhagwati:** But then as of now we have not provided for that because we consider it as standard asset.

**M.S. Mahabaleshwara:** No, it is considered as standard advances, as of now there was no need and it is not treated as NPA, it is treated as standard advances, only standard advance provision is held.

**Ritesh Bhagwati:** Okay. Then I think we have Indiabulls also to the extent of 0.91%, that is roughly around Rs. 5 crores?

**M.S. Mahabaleshwara:** Yes

**Ritesh Bhagwati:** So, they are standard assets too?

**M.S. Mahabaleshwara:** Yes.

**Ritesh Bhagwati:** Under what rating does it fall, is it under 'D' rating only?

**M.S. Mahabaleshwara:** Both I have exposure to Indiabulls Commercial Credit as well as Indiabulls Housing Finance both are rated as AAA.

**Ritesh Bhagwati:** Okay. And I think we also have towards Dewan Housing which is Rs. 225 crores, so as of date how much has been provided?

**M.S. Mahabaleshwara:** Here also this account is not treated as NPA, only ICA has been signed.

**Ritesh Bhagwati:** Okay, to the extent of Rs. 100-odd crores?

**M.S. Mahabaleshwara:** Yes. So this is part of 'D' rated category, earlier when we took exposure it was AAA and now it is 'D'. But it is yet to be treated as NPA.

**Ritesh Bhagwati:** We don't have exposure towards Jet or Zee Group, right?

**M.S. Mahabaleshwara:** No, we don't have.

**Moderator:** Thank you, sir. We have a question from Mr. Gaurav Jani from Centrum Broking. Please go ahead.

**Gaurav Jani:** Just two questions. One is, if you can just quantify the provisioning on the standard restructured book and the provisioning on the SRs?

**M.S. Mahabaleshwara:** Our SR portfolio as of now is at Rs. 408.64 crores is the SR portfolio. And for this the provision held is Rs. 90.76 crores.

**Gaurav Jani:** Okay. And on the standard restructure?

**M.S. Mahabaleshwara:** Standard restructure, restructure total advances is Rs. 659.40 crores.

**Gaurav Jani:** So, I think standard is Rs. 362 crores because Rs. 300-odd crores is the NPA portion?

**M.S. Mahabaleshwara:** Yes. In this standard restructured is Rs. 361 crores, provision is Rs. 47.40 crores.

**Gaurav Jani:** Sir, last question from my end, any color that you would like to provide on the commercial real-estate portfolio, the infra portfolio that you have mentioned, what sort of any pain points out there?

**M.S. Mahabaleshwara:** As of now, no. Only pain point we are visualizing is from the Sintex and Dewan. Other things we don't have since we don't have any big exposure. If you have any specific reference you please tell us I will respond to that.

**Gaurav Jani:** No, just the real-estate industry itself or real-estate a lot of the major accounts have started witnessing stress.

**M.S. Mahabaleshwara:** We have not taken that type of exposure. In all that real-estate it was our all the partnership firms or the individuals, were in our exposure to each of that is around Rs. 10 crores, Rs. 15 crores, and they are all in good shape. We have not taken triple digit exposure at all for any of the real-estate projects.

**Gaurav Jani:** Sure. And sir I am just looking at the slide on advances, the breakout between retail mid-corporate and corporate, and at the right we have the segmentation of gross advances. So it will be helpful if in the retail portion of up to Rs. 5 crores which of the segments would be included? So, probably not now, but yes. So, thank you, sir.

**M.S. Mahabaleshwara:** Thank you. Thanks for that suggestion.

**Moderator:** Thank you. We have a question from Ms. Sneha Ganatra from Shubhkam. Please go ahead, ma'am.

**Sneha Ganatra:** Sir, during analyst meet you had mentioned that you are planning to start non-financial wholly owned subsidiary, what is the status of it?

**M.S. Mahabaleshwara:** Yes, we have already received In Principle permission from Reserve Bank of India. And there are certain formalities like preparation of Memorandum of Association and Articles of Association i.e., that is now fulfilled and we have submitted the final application to the Regulator. So, once we receive their final consent, we will be floating the subsidiary.

**Sneha Ganatra:** Sir, what would be the purpose of this subsidiary?

**M.S. Mahabaleshwara:** This is wholly owned non-financial subsidiary mainly to do certain activities in a very cost-effective manner. There are a lot of activities which the bankers can definitely get it done through subsidiaries. Many banks already have it and that is mainly to have in a cost-effective mechanism for the entire banking operation.

**Sneha Ganatra:** Okay, got this. And second question is, you are planning to engage in the para-banking for general insurance, life insurance and mutual fund activities. What is the status of that that would garner your fee income side?

**M.S. Mahabaleshwara:** Yes, that is really going great. We have three life insurance partners, one is LIC, second one is MetLife, third one is BhartiAxa. BhartiAxa is the new partner that we have signed-up effective from 1st of April, 2019. Under the general insurance category, we have signed

up with two insurance companies, Universal Sampo General Insurance Company Limited and the second one is Bajaj Allianz General Insurance Company. And in the mutual fund side we have signed-up with around seven companies. These are all doing well. Of course, there is a very good income growth also from these sectors.

**Moderator:** Thank you. We have a question from Mr. Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** Sir, firstly if you could provide us where is the write-off accounted for in the P&L, that Rs. 350 crores write-off?

**Muralidhar K Rao:** Its debited to provision, because we are making write-off only to the extent of fully provided accounts.

**Saket Kapoor:** We have a provision other than contingency of 200 crores, this is included?

**Muralidhar K Rao:** Entire Rs. 390 crores which has been written-off is by debit to the provision for NPA Accounts.

**Saket Kapoor:** Okay. So, it in the Serial No 8 that is being accounted for, that Rs. 350 crores?

**Muralidhar K Rao:** Yes.

**Saket Kapoor:** Sir, if I come to your operating expenses, we find that for this quarter the operating expenses are to the tune of Rs. 389 crores wherein for the March quarter on a net interest earned on Rs. 1530 crores it was Rs. 447 crores. So what led to this reduction, and when we go for an explanation with June 2018, it was Rs. 309 crores, so if you could...

**M.S. Mahabaleshwara:** One of the items in operating expenses is establishment expenses. In that we have two categories, that is salary as well as superannuation benefits. As far as salary is concerned for the March 2019 it was at Rs. 176.65 crores, now it is at Rs. 155.30 crores, that is a major difference. And as far as superannuation benefits for March 2019 quarter, it was Rs. 36.80 crores, now it is at Rs. 21.20 crores. So the establishment expenses which comprised of salary and superannuation benefits, it was Rs. 203.45 crores, now it is Rs. 176.93 crores. And the other expenses, that is the miscellaneous expenses, we had Rs. 243.79 crores as of March 2019, now it is Rs. 212.44 crores.

**Saket Kapoor:** Sir, for the year what should we factor in under this category, what should be the average net run rate per quarter, sir?

**M.S. Mahabaleshwara:** Operating expenses for the last year was Rs. 1,457 crores, it may not go significantly, most probably it may go up by about 10% or 12%. Generally it is under control, if you look at the historical numbers, on an average it is under control so we will be able to manage it at that level.

**Saket Kapoor:** Sir, for the recovery part you were telling that we are expecting a recovery of around Rs. 300 crore per quarter?

**M.S. Mahabaleshwara:** Yes, I said it could be in that range. In the identified account, there is fair chance of recovery and One Time settlement (OTS), all such points. So, entire recovery process is

also brought under digital platform by having our own end-to-end solution called Vasool So-Ft, which has been launched to help us in improving recovery efficiently.

**Saket Kapoor:** And sir, what kind of slippage are we factoring in going forward, because if we take the gross NPA as on June it is Rs. 2,438 crores, as per your understanding Rs. 300 crores per quarter leads to a recovery of around Rs. 1200 crores, that is a 50% reduction in the gross NPA. So, what kind of slippage also we are working with?

**M.S. Mahabaleshwara:** Currently the net slippage, what I am referring is in the gross slippage. Last year, our gross slippage ratio was 3.16. This time definitely it would be below 3%. Only because of these three accounts, i.e., Reliance ADAG Group as well as Dewan and Sintex. Otherwise it would have been still brighter position for the Bank. But anyhow, we are able to absorb that also.

**Saket Kapoor:** We should look at this gross NPA numbers then because the recovery will be factored in the gross NPA account only, Rs. 1200 crores which we are envisaging will get factored in the gross NPA or where will it be factored?

**M.S. Mahabaleshwara:** No, that's addition, and reductions are totally different, two different things we are talking about. Rs. 300 crores per quarter approximately is the best additions, equivalently there is reduction also to the same extent. Intra-quarter addition will also be there when we take the accounts, its not the end of the quarter, there would be some accounts which slipped in the intra-quarter and got upgraded, because we have already migrated to the daily markings of NPA. So this is the reason sometimes our slippage is also slightly inflated.

**Saket Kapoor:** And sir lastly, what is the size of our treasury books, I mean, how many G-Sec are we holding? I think for the treasury obviously the profit is there.

**Muralidhar K Rao:** Total investment is Rs. 17,304 crores, out of that is Rs. 12,431 crores, 72% of the investment portfolio is in HTM, Out of Rs. 17,304 crores 15,035 is the G-Sec.

**Saket Kapoor:** Rs. 15,000 crores?

**Muralidhar K Rao:** Yes, Rs. 15,035 crores.

**Saket Kapoor:** So the treasury operations are mainly on account of mark-to-mark on that front, the Rs. 94 crores that we have earned?

**Muralidhar K Rao:** That is AFS only.

**Saket Kapoor:** I didn't get you.

**Muralidhar K Rao:** That mark-to-market is in the AFS category, where our aggregate book size is Rs. 4,873 crores.

**Saket Kapoor:** Okay. So the fall in G-Sec, under which category is that advantage accrued sir? Is it in the treasury operations only?

**Muralidhar K Rao:** No, it's all in G-Sec that has already come into the Profit & Loss Account is by way of reduction in the depreciation requirement as well as profit of the sales, as and when we are actually accruing some of the estimates, that profit is also getting reflected.



**M.S. Mahabaleshwara:** Trading profit for the June 2018 quarter was Rs. 6.25 crores, now it is at Rs. 24.17 crores during the Q1 of 2020.

**Saket Kapoor:** Rs. 24 crores?

**M.S. Mahabaleshwara:** Rs. 24.17 crores, yes.

**Saket Kapoor:** And that is what is clubbed under treasury operations?

**Muralidhar K Rao:** Yes, correct.

**Saket Kapoor:** And other than this, what constitutes the treasury operation and how will this segment going to be affected going forward?

**Muralidhar K Rao:** Other than that since our treasury book itself is very smaller size, HTM in any case it is not going to give us any income quarter on quarter basis. It is only AFS category. We are receiving interest income on the estimates and we are also booking the profit whenever there are trading opportunities.

**Saket Kapoor:** And sir if we take this corporate banking part as well as the retail banking, we find the numbers to be very muted, for the corporate banking although there is a turnaround if we take around Rs. 36 crores PBT which we have got, earlier for the entire year it was Rs. 28 crores. So what should we factoring for this year and why this retail banking is not performing, why this only Rs. 6 crores of profit we have booked for retail banking?

**Muralidhar K Rao:** We will get the exact information for reduction in the retail banking and results. we will come back .

**Saket Kapoor:** You will be answering it later?

**Muralidhar K Rao:** Yes, please send an email and we will respond.

**Saket Kapoor:** So, whom should I write to sir? Or will you be submitting to the stock exchanges?

**Muralidhar K Rao:** No, on this particular issue of segment report classification, you can mark a copy to me at muralidhar@ktkbank.com.

**Saket Kapoor:** Right. And sir what about the unallocated part sir, this Rs. 14.5 crores loss and last year Rs. 37 crores?

**M.S. Mahabaleshwara:** Unallocated is tax expenses and depreciation, so it is mainly headoffice related expenses.

**Saket Kapoor:** So sir, for this year on top of what we did in March 2019 what kind of growth should be factor in going forward in terms of the interest earned and the PBT level? What is the bank working with?

**Muralidhar K Rao:** Can you repeat please?

**Saket Kapoor:** Sir, I am telling that on what we have reported on the March numbers in terms of interest earned and the PBT levels, what is our bank working towards if we close the next year?

We have already done with the first quarter, what are we envisaging going forward in the next quarter?

**Y V Balachandra:** For the entire year we have set a business turnover target of Rs. 1.24 lakh crores, consisting of Rs. 79,500 crores of deposits, and Rs. 64,500 crores of advances. Similarly internally we have worked out certain numbers, some of these numbers have already been shared like slippage ratios, credit cost, even the yield and advances, some visibility has already been shared. But for the sake of regulatory compliances we are not divulging the information of internally set profit target we are looking at.

**Saket Kapoor:** And lastly sir, for the March we didn't have a conference call, I think this time...

**M.S. Mahabaleshwara:** No, Traditionally what we are following is the con-call is for the June, September and December quarter, and for March we have Investors Meeting itself at the Mumbai, so regularly we do that. It is two days after announcement of the results, this year also we had held in Mumbai.

**Saket Kapoor:** But it is only a request, here we will get wider participants not only from the country, but outside also. So March numbers are big numbers for entire year, so if you can consider a con-call also, you can continue with meeting investors at Mumbai, but across the country has invested here sir.

**M.S. Mahabaleshwara:** So, in addition to the Investors Meet you are requesting for a con-call also?

**Saket Kapoor:** Yes, for better sake of all the investors fraternity and investing community, it will be a good gesture. Please do the same, it is now three quarters away. So please look into it.

**M.S. Mahabaleshwara:** Thanks for that suggestion.

**Moderator:** Thank you, Mr. Kapoor. Mr. Alok Shah, would you like to say something?

**Alok Shah:** Yes. So I thank everyone for being on the call. Mahabaleshwara sir and the entire team of Karnataka Bank, thank you for the patient hearing and answering of Q&A. With this we conclude our call. Thank you, sir.

**M.S. Mahabaleshwara:** Thank you and thanks to all the participants also. Thank you.

**Moderator:** Thank you, ladies and gentlemen. On behalf of Monarch Networks Capital Limited, this concludes this conference. Thank you for joining us. You may now disconnect your lines and have a great evening. Thank you.