



“Karnataka Bank
Q1 FY2022 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen, and a very warm welcome to the Karnataka Bank Limited Q1 FY2022 Earnings Conference Call hosted by Monarch Network Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aalok Shah from Monarch Network Capital Limited. Thank you, and over to you, Aalok!

Aalok Shah: Thanks Alif. Good evening to all. On behalf of Monarch Network Capital Limited, we welcome you for the Karnataka Bank’s Q1 FY2022 earnings concall. From the Bank’s side today we have the Managing Director & CEO - Mr. Mahabaleshwara M S, the COO - Mr. Balachandra Y V, the CFO – Mr. Muralidhar Krishna Rao and the CBO - Mr. Gokuldas Pai and other senior management team. Without taking much of the time, I would request Mr. Mahabaleshwara sir for his initial comments post which we can take the Q&A session. Thank you and over to you Sir!

Mahabaleshwara M S: Thank you Aalok. Good afternoon to all of you. Thank you very much for your participation. As in the past, this quarter also posed many challenges, especially in the areas of growth, management, asset quality management, employees health management, etc. Nevertheless, in spite of the tough situation, Karnataka Bank remained profitable. As far as the growth is concerned, we have been able to reverse the negative trend as our June position has improved compared to the March 2021 position. There is a positive traction both in the advances as well as the deposit side. However, going forward I am confident that during the second quarter of the current financial year, there will be a significant improvement as the NTB customers’ credit enquiry is on the increase. Further, the asset quality has also further improved as could be seen from the gross NPA as well as net NPA numbers both in absolute terms as well as in percentage terms. You all might have seen the detailed analysis that we have uploaded in our website, wherein the Gross NPA which was at 4.91% as of March 21 and is now at 4.82%. During March 2021, in absolute numbers, it was Rs.2588.41 Crores and now it has slightly improved to Rs.2549.06 Crores. About a year back, this was at Rs.2557.64 Crores and percentage-wise it was at 4.64%.

As far as the net NPA is concerned, it was 3.18% as at March 21 and now it is at 3%. In terms of absolute numbers, it was at Rs.1642.10 Crores and now it is at Rs.1552.95 Crores. About a year back i.e., as of June 20, the net NPA was at 3.01% and in terms of absolute numbers, it was at Rs.1630.65 Crores.

You may be aware that there was a standstill clause for recognition of NPAs during the first three quarters of FY 21 and as a result, all the NPAs were recognized during March 2021 and hence the slippage ratio was higher at 2.25%, as against that, the slippage ratio for the current quarter is at 0.83% only. We had a gross slippage of Rs.414.24 Crores during this current quarter as against Rs.1175.92 Crores as on March 21 and as against the said Rs.414.24 Crores, the reduction is Rs.453.59 Crores i.e., by way of recovery-Rs.270.39 Crores and technical write off-Rs.183.20 Crores. The credit cost also remained at a lower level of 0.45% during this current quarter whereas in the previous quarter it was 0.67% and one year back it was at 0.80%. Provision Coverage Ratio (PCR) has also further improved to 72.24% from 70.05% as of March 2021 and 67.93% as of June 2020.

Our capital adequacy ratio (CAR) is at 14.58% excluding the current quarter profits and if the current quarter profit is also taken into account, it would be 14.79%.

Of course, stress is measured not only in terms of the NPA but also in terms of the SMA accounts. The SMA-1 accounts during March 2021 were at Rs.2181 Crores and it remained at almost same level i.e., Rs.2608 Crores as of June 2021. SMA-2 as on March 2021 was Rs.1393 Crores and as of June 2021 it is Rs.2246 Crores. When we say SMA-1 and SMA-2, it includes all types of accounts i.e., the borrower-wise and includes both the main account as well as the related accounts. Here you may be aware that, during the most part of the current quarter entire country was under the lockdown and only during the last 15 days of the quarter, the lockdown was gradually reduced and we had limited time for the renewal of the working capital limits. So if you make further analysis, in the SMA-2 portfolio almost 50% of that is due to accounts pending for renewal at that particular point of time, which were subsequently renewed. Similarly we had limited time available for restructuring the eligible accounts so that is the reason why there is slight increase in case of SMA-2 as on June 2021 compared to March 2021, but now the position is almost at March 2021 level.

Further, as far as the profitability is concerned, operating profit has gone up by 7.96% compared to the previous sequential quarter and year-on-year basis there is a decline to an extent of 38.82%, mainly on account of the reduction in the trading profit. Last year first quarter i.e., Q1FY21 we had a trading profit of Rs.355.37 Crores, whereas in the current quarter it is only Rs.25.34 Crores and in spite of that, the operating profit is down by just 38.82% on year-on-year basis, whereas on quarter-to-quarter sequentially it is up by 7.96%. Similar trend is also observed in net profit where, for March 2021 quarter our net profit was Rs.31.36 Crores and June 2021 it

is Rs.106.08 Crores compared to Rs.196.38 Crores about a year back that is June 2020. So, year-on-year variation is -45.98% whereas quarter-to-quarter variation is +238.28%.

The digital transactions which were at 90.66% as of March 2021 have further improved to 91.63% and retail digital underwriting in almost all areas is having a positive traction and “KBL Vikaas 2.0” i.e., KBL NxT initiative, to emerge as the Digital Bank of the Future, is also very much on track. Further our own wholly owned subsidiary i.e., KBL Services Limited (KSL) is also now effectively functioning. Our departments have started indenting for the Business Associates. KSL is going to help us in cost efficient business, that is business support as well as cost effectiveness. That is the main objective of KSL and going forward I am confident that it will be a win-win model, both for Karnataka Bank as well as for our subsidiary in having a cost effective banking model.

In yesterday’s Board Meeting, the Board also discussed about the need for capital augmentation, especially through QIP route wherein few suitable institutional investors are likely to be onboarded and we have already indicated that up to 15 Crore equity share, to that extent we may think of QIP, but definitely not in one tranche or so. The timing, tranche, size, etc., will be decided after the conclusion of our AGM, which is scheduled for 2nd of September 2021.

Going forward, definitely the priorities for the Bank will be growth management, asset quality management, and on both the fronts I am very much optimistic. Because, the growth momentum has already taken off during the first quarter of the current financial year and asset quality concern is also effectively addressed. The net interest income (NII), which has shown robust 25.19% growth during this quarter and year-on-year also it is positive at 7.41%, definitely it is going to be further improved, number one. Number two NIM also, it was at 2.41% as of March 2021 as against 2.89% as of June 2020, now it is at 2.98%. In the past also I had mentioned while interacting with you all that our first effort is to take NIM to a level of 3% and above. I am seeing that it is not too far as far as the current year’s performance is concerned, definitely we should be able to take the NIM to a very reasonable levels or the expected level in the very near future. So with these few opening remarks let us open this session for the interaction, over to you moderator.

Moderator:

Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Rajat Jain an individual investor. Please go ahead.

Rajat Jain: Thank you for the time. I have a couple of questions. The results are pretty decent compared to what other banks reported, but the stock price is not reflecting that. I have been holding your company shares in the last two, three years. The stock fails to perform. Does the management looking proactively to address this issue?

Mahabaleshwara M S: Performance is in my hand, stock movement is neither in my hand nor in your hand, but I am definitely optimistic and I am also sharing my concern with you. Going forward apart from improving the fundamentals, improving the growth story is also important. As you have rightly pointed out, the asset quality is one thing which really stands out as compared to other banks which have announced the result. In that area, I am very confident that there is no sudden unexpected surprises going forward and for all the big ticket advances of Rs.100 Crores and above, we have already made adequate provision and I am not seeing any stress in that sector of advances. Now we have decided to go for the QIP and when few of the institutional investors are onboarded, I am sure that the stock market is likely to respond positively. Let us be optimistic, we all are working towards that only.

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

Sudhir Mahajan: Good evening sir. Congratulations, I am very happy with the result. I am sure we will do better under your leadership. Sir but this enabling resolution on this capital expansion, I hope it is not going to be at the expense of existing shareholders by onboarding people at 0.3%, 0.4% of the book value, maybe if you could talk about that it would be nice and then I could ask the second question.

Mahabaleshwara M S: Please continue with your second question as well.

Sudhir Mahajan: I would like you to talk about the digital thing, what we are trying to aim and what have we achieved and maybe if you have benchmarked with any of the other banks and where are we compared to say ICICI or Kotak or someone in the digital journey.

Mahabaleshwara M S: First one is your apprehension regarding onboarding of the institutional investors at a low price of 0.3%. Yes that is a call which we have to take. Because without onboarding the institutional investor what would be the share price movements. In the past we have seen that, in spite of the sustainable and consistent good results, the share market has not reacted favorably in favor of our investors and this was deliberated at length in various forums. If you look at the investors' profile in the shareholding of Karnataka Bank, the share of institutional investors holding is little bit on a lower side when compared to the other peer

groups. Considering that, we may have to take a call and that is why I said the timing and tranches would be decided in due course by duly taking care of the interest of all the stakeholders.

Second one is on the digital journey. In the past also I have made it very clear about the thought process at Karnataka Bank. The first decade of the current century belonged to the Core Banking Solution wherein Karnataka Bank was one of the pioneers in adopting the Core Banking Solution in its early period itself. The second decade of the current century belonged to the Alternate Delivery Channel, wherein mobile banking, internet banking, POS, and ATM related services got expanded and definitely, this third decade of the current century belongs to digital underwriting of loans. Considering this, in our KBL Vikaas transformation journey we have laid a solid foundation that covers the digital journey. Not only that, this digital initiative is going to drive the banking as far as the third decade of the current century is concerned. From that angle we had already started our Digital Center of Excellence (DCoE) at Bengaluru and the digital asset underwriting has started in each and every areas of banking, may it be the banking products of business departments or even the banking solutions of the support department. We want to have an end-to-end digital solution and keeping that in mind, we have started our KBL Vikaas 2.0 under the concept of KBL NxT. Your question is how you are going to benchmark with the leader. Definitely going forward the Bank's digital journey would not only compare well with these well established leaders in the banking sector but I am also confident that, in few areas we are going to create a new benchmark in the digital journey and that is the confidence and the preparedness the Karnataka Bank has at present. Yes, this is an area where all the banks are catching up and I can reassure you that our Bank will not lag behind as far as the digital initiatives are concerned. Thank you.

Moderator: Thank you. The next question is from the line of Suraj Das from B&K Securities. Please go ahead.

Suraj Das: Thanks for taking my question. So the first question is sir roughly if you can give us some color on the slippages breakup that has happened in this quarter, which is roughly around Rs.400 odd Crores so what are the primary segments here?

Mahabaleshwara M S: Slippage under agriculture is around Rs.43.25 Crores and CRE is Rs.6.81 Crores, education Rs.1.64 Crores and housing loans around Rs.58 Crores, then mortgage loans around Rs.18.45 Crores, MSME is around Rs.255.46 Crores and vehicle loans around Rs.10.67 Crores and all others Rs.3.95 and personal loans Rs.7.18, all put together around Rs.409.67 Crores and all

these slippages are in the below Rs.50 Crores category, not a single account in the ticket size of above Rs.50 Crores.

Suraj Das: Okay understood sir. Sir then on the restructuring sides roughly in this quarter we have additional something around Rs.1000 Crores, so again what are the major contributors there?

Mahabaleshwara M S: During this quarter the restructuring is Rs.924 Crores, it was below 1.80% of our total loan book size. In fact, during the last conference call I remember that I had mentioned that we are expecting the restructuring in the range of around 5 to 6% but this restructuring exercise is not yet over. You may be aware that we have time for invocation of restructuring up to September 2021 and by December 2021 this exercise has to be completed. In the past also our experience is that people preferred repayment than the option of restructuring. I am optimistic that the trend would continue and definitely it would be well within the original estimate.

Suraj Das: So that is roughly around 5% to 6% you are estimating it, it would permits us to be in that range.

Mahabaleshwara M S: Under the restructuring framework 2 of Reserve Bank of India.

Suraj Das: Okay so under Reserve Bank 2.0 got it.

Mahabaleshwara M S: We are closely watching the position of the restructured advances, the SMA portfolio as well as the NPA on a day to day basis. A strict oversight is put in place and we are seeing the results. Not only me, but all the top executives, the regional heads get the data on this and immediate action follows. It is not that once it slips to NPA we are getting the data, it is about 10 days in advance or so. It is a sort of early warning system and that is why effective monitoring is there and definitely it is going to help us a lot in containing the stress in the portfolio.

Suraj Das: Okay sir understood. Sir we had exposure to one of the large coffee accounts as well so if you can update us about the status of that account?

Mahabaleshwara M S: During the third month and fourth month there has been recovery of around Rs.17 Crores. Even though we had provided 100% for that particular account, and within another two to four months there is an indication that that entire amount is going to be recovered. We have adequate security for that but we are confident that things are moving in the right direction and I am expecting full recovery within another two to four months period.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Just wanted to get a sense of this board resolution of issuance of up to 15 Crores shares, so this is almost 30% dilution and in that case will be such a large dilution?

Mahabaleshwara M S: Firstly, 15 Crores shares is the upper limit.

Subhankar Ojha: So that will be on a fully diluted, it will be almost 30% plus.

Mahabaleshwara MS: This is the upper limit, the chances of going for the full 15 Crores shares may not be there but an enabling provision is made. I do not think we can discuss on this platform because it has appropriate time depending on the mutual acceptability and all such things. As I said, the guiding principle for us is the stakeholders' value creation keeping in mind the larger interest of all the stakeholders. Bank will take a call at appropriate time on all the terms and conditions of the QIP whatever it may be.

Moderator: Thank you. The next question is from the line of Pooja Ahuja from Monarch Network Capital Ltd.. Please go ahead.

Pooja Ahuja: Thanks for the opportunity. Sir first we wanted to understand on the restructuring, what kind of provisions we have made on the restructured portfolio and in general in the past what percentage of the restructured book have you seen tripping into NPA. That's my first question.

Mahabaleshwara M S: While attempting restructuring we have taken abundant precaution to ensure that only those accounts which fulfil the requirement of the restructuring framework 2.0 and which are really going to be viable, are considered for restructure and that is the reason why we have seen about Rs.414 Crores slippage during the current year. The accounts that are not viable or where we are not sure of the viability, we have not restructured such accounts. Keeping that in mind, the future slippage from the restructure would see minimum even though at present this is in the range of 9 to 10% as of now.

As far as first part of your question, at present we are holding a provision of Rs.432.38 Crores i.e., 16.10% of the total restructure portfolio. The restructured portfolio it was at Rs.1738.41 Crores as of March 2021 and the current restructuring added together the total restructuring portfolio is Rs.2685 crore, so our restructuring provision for that is 16.10%.

Pooja Ahuja: Sir on your SMA-1 and SMA-2 book historically what percentage of that has normally slipped to NPA if you could throw some light there?

Mahabaleshwara M S: Slippage is from SMA-2 generally so right now I do not have number let me look into that also.

Pooja Ahuja: My last question was on your CASA sir just some sense on where do we see CASA growing and what CASA percentage are we targeting, do we have any number in mind?

Mahabaleshwara M S: CASA is at 30.82%. Our original target was 30% that we have already crossed comfortably. Going forward it should be in the range of 33 to 35%. Now government agency business is made available to the private sector banks also, so we are in a position to encash that opportunity and it will get further consolidated. My rough estimation is that it could be in the range of 33 to 35% in couple of years. CASA is growing at 14.06%, y-o-y.

Pooja Ahuja: That's it from mine. Thank you.

Moderator: Thank you. The next question is from the line of Rishikesh from RoboCapital. Please go ahead.

Rishikesh: Sir my question was could you please give a guidance on credit cost for this year and next year on an absolute terms?

Mahabaleshwara M S: Last year the credit cost for the entire year was at 2.37%, it should be below 2% during the current year.

Rishikesh: Okay next year.

Mahabaleshwara M S: Next year, let us discuss during the next first quarter.

Rishikesh: Okay, no problem.

Mahabaleshwara M S: Definitely it may show the trend, which is coming down also.

Rishikesh: So sir if we can say below to around Rs.1000 Crores and the Rs.100 Crores type of provisions you are seeing.

Mahabaleshwara M S: Yes percentage wise it could be like that it would be below Rs.1000 Crores.

Rishikesh: Okay that will do. Thank you.

Moderator: Thank you. The next question is from the line of Priyadarshi Srivastava from Monarch Networth Capital Ltd.. Please go ahead.

Priyadarshi Srivastava: Sir wanted to know what is the growth that you see in retail and SME space Sir?

Mahabaleshwara M S: For the current financial year we have seen a growth rate of 4.58% in retail and 4.49% in the mid-corporate sector. Growth rate especially in retail i.e., up to Rs.5 Crores and the mid-corporate i.e., between Rs.5 to Rs.100 Crores will get further moved to double digit during the current second quarter and that is why I said, we will be focusing more on these two sectors than the large corporates. Here also, the areas that we have selected are MSME –with year-on-year growth of 20.76%, gold loans with a growth of 40.81%, equipment loans to the contractors with a growth of 32.42% and also the agricultural advances with a growth of 4.09%. These are the areas which are likely to contribute significantly going forward also. As I said definitely current year the credit growth could be in the range of 15% plus.

Priyadarshi Srivastava: Sir what is your call in the provision how much accelerated provisions are created sir?

Mahabaleshwara M S: We have been making accelerated provision for the last two to three years that is the reason why our provision coverage ratio has improved to 72.24% and again this is an all-time high and since the operating profit is likely to keep the current northward trend, we will also accelerate the provision as the need be, so as to have a healthy provision coverage ratio and still to further improve it. That is the reason why I said the credit cost could be in the range of 2%. Otherwise, if you just look into the slippages and provide for the provisions, the credit cost would not be in that range. We want to improve the provision coverage ratio or atleast maintain at this level.

Priyadarshi Srivastava: Thank you very much sir and the all the best for the future.

Moderator: Thank you. The next question is from the line of Riya from CG Philip. Please go ahead.

Riya: Good evening sir. I just wanted more color on the restructuring book and what sectors had been included in the restructuring book?

Mahabaleshwara M S: Restructuring the opening balance was Rs.1738.41 crore and now it is Rs.2685 crore, the major areas of restructuring, MSME, retail and small business that is the major area. This is mainly from one major account in the large corporate from the trading sector with an exposure of about Rs.300 Crores plus. Apart from that all in the areas of retail and mid corporate zone amounting to Rs.900 plus Crores.

Riya: That was in retail?

Mahabaleshwara M S: Mainly from retail and mid corporates.

Riya: Okay, thank you sir.

Moderator: Thank you. The next question is from the line of Aalok Shah from Monarch Network Capital Ltd. Please go ahead.

Aalok Shah: Sir a couple of questions from my side before I hand it to some other participants. We have seen some of the banks struggle with their gold loan portfolio especially in terms of NPAs, what has been your experience here that is my first question sir and second question here is that you talked about Rs.400 odd Crores of slippages and if I understand that right none of that slippages accounts above Rs.50 Crores of exposures so that its more granular in nature. Would that be the right understanding?

Mahabaleshwara M S: Correct. Under gold loans NPA, i.e., the slippage is 0.34% of the portfolio. Once the NPA happens, the recovery as well as the auction would happen within about two to three months that is why NPA percent is at bare minimum level. We also have a system of regular follow-up once the account slips to stress category. Then, immediately the parties are contacted and account is recovered. Even after 90 days if it remains as overdue, then we may go for auctioning. It is very much under control as far as the gold loan portfolio is concerned.

Aalok Shah: Sir basically what we have been hearing from some of the neighbor banks in the region of your operations is that they have been taking a lot of challenges on the gold loan portfolio, significant increase in NPA and what I understand here is that that is not the picture in case of Karnataka Bank?

Mahabaleshwara M S: Here two things, one is as far as maintaining the LTV and regular follow-up. We are keeping a close tab on the LTV breaches, if any, and appropriate corrective measure is initiated then and there. Second one is our ETB customers as well as NTB customers. We know the history of ETB customers and for NTB customers we have a separate follow-up mechanism. The portfolio even though is growing at 40% plus, as of now 40.81%, we are very optimistic of its health that is why we are determined to take it to a level of 10% of our overall loan book, now it is at around 5.5%. You may be aware of the fact that about 40 to 48% of our branches are in the rural and semi-urban areas where there is a very good growth for gold loans and we are properly utilizing that opportunity to grow the loan book.

- Aalok Shah:** Sir okay that helps me. My next question here is that you talked about credit cost as a guidance for FY2022 with the kind of run rate on slippages that we have seen, would you want to put a number to it on the slippages front for FY2022?
- Mahabaleshwara M S:** FY2022 someone made an estimation that it could be in the range of Rs. 1000 to Rs. 1100 something like that. Going forward, I think that would be a number definitely worth achieving less than that. Let us see.
- Aalok Shah:** That helps. Thank you sir.
- Moderator:** Thank you. The next question is from the line of Yash Dantewadia an individual investor. Please go ahead.
- Yash Dantewadia:** I do have couple of questions. In one of the question people just asked about the coffee account what was the total exposure of the coffee account that you are optimistic on recovery?
- Mahabaleshwara M S:** Recovery is 100% expected and we have already recovered Rs.17 Crores during M3 and M4 of the current year and in another two to three months we are optimistic of recovering the full amount.
- Yash Dantewadia:** What is the full amount?
- Mahabaleshwara M S:** It was having about Rs.120 Crores exposure, now in the range of Rs.103 crore.
- Yash Dantewadia:** So you met a lot of institutional investors so what has been there response and what are their concerns on this time.
- Mahabaleshwara M S:** Response is quite positive that is why we want to go ahead with that, they are all very happy about the fundamentals of the Bank, many of them have even started making their own due diligence as per the information available in the public domain so that is why we will take a call at appropriate time.
- Yash Dantewadia:** Are there any plans of Karnataka Bank entering into the credit card business?
- Mahabaleshwara M S:** We are already into Cobranded credit cards. We have tied up with State Bank of India and since the last two years we are issuing credit cards and the credit card base is already nearing a lakh.

Yash Dantewadia: Also on the gold loan front how are you planning to expand on that because I am seeing a very big gold loan opportunity especially in rural India right now?

Mahabaleshwara M S: About 1.5 years back our gold loan portfolio was in the range of 2.5 to 3%, now it has already crossed the 5% of the loan book and in couple of years, most probably by June 2022 itself, we will be able to take it to a level of minimum 10% of the loan book. But equally important for us is the quality, so considering the stress in the general economy, we are keeping a close watch on it and we are trying our level best to ensure that all the gold loans are well within the LTV and they are properly serviced and stress as well as the slippage is totally minimized. During the first quarter, we have been able to adhere to that and with the system that we have put in place both for gold loan sanction as well as gold loan monitoring, I am sure we are moving in right direction.

Yash Dantewadia: Also at the time when I saw the result of Mahindra and Bajaj Finance, we had a lot of stress on the auto loans, what percentage of your book is on auto loans and what kind of stress you feel there?

Mahabaleshwara M S: In the car loan, we have 3.32% NPA and car loan portfolio as a whole is constituting 2.32% of our GBC, so as I said in all the sectors not only in the car loan even if you look into the housing loan or even the MSME sector or corporate loan, the stress appear to be very much under control both in.

Yash Dantewadia: Okay, this quarter there has been some tax adjustment that is why the net profit has come to Rs.106 Crores, can you explain that?

Mahabaleshwara M S: Sir, please repeat your question?

Yash Dantewadia: This quarter there has been tax expense adjustment that is why the net profit has come to Rs.106 Crores, can you explain that?

Muralidhar Krishna Rao (CFO): We have made Rs.230 Crores provision for NPA and we also done around Rs.182 Crores write off and standard advance provision have also done. All these three are eligible for deduction under income tax act. Total of these three stands at Rs.500 Crores and on this, income tax deduction is available and hence there is a write back of tax.

Yash Dantewadia: Also one more question sir, the book value of your bank is I think around Rs.216 to Rs.217 right now right?

Mahabaleshwara M S: Book value is Rs.217.

Yash Dantewadia: Yes, so the stock is leading, as of today closing it is leading at 0.26 of price to book value ratio, so I just add actually money control, if you aware of one application called money control where displaying the book value at Rs.39.41 only, so I just wanted you to take a note of that because I have already e-mailed them several times, but there has been no response.

Mahabaleshwara M S: We will take it sir,. Thank you.

Moderator: Thank you. The next question is from the line of Suraj Das from B&K Securities. Please go ahead.

Suraj Das: Just a followup question. You said in this quarter you had roughly around Rs.6.81 Crores stake in the CRE, so can I get the corresponding exposure of the CRE, because last quarter if I remember it correctly it was something around Rs.2200 Crores, so what is the loan book here in this quarter?

Mahabaleshwara M S: Commercial Real Estate loan book size is Rs.4934 Crores, which constitutes around 9.31% of the GBC.

Suraj Das: Okay, book has almost doubled Q-o-Q basis, based on the last quarter disclose, the CRE book was at Rs.2177 Crores and right now it is Rs.4935 Crores.

Mahabaleshwara M S: No.

Suraj Das: Is there any reclassification or some sort of that?

Mahabaleshwara M S: That is LRD, that is lease rental discounting that is what you are referring, but commercial real estate for the current quarter, last March 2021 it was Rs.4923.72, almost at the same level.

Suraj Das: Fair enough, got it and Sir, I actually missed the last point of the slippages breakup, so you said Rs.10.67 Crores from which segment if you can repeat that slippages data once again?

Mahabaleshwara M.S: Rs. 10.67 Crores is various vehicle loans.

Suraj Das: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Shrinivas Rao from Karnataka Bank. Please go ahead.

Shrinivas Rao: Good evening. What is the bottom line guidance for FY2022?

Mahabaleshwara M S: It could be at the same level, because you have to factor-in that treasury income that we got during the last year., If it were on the same line, then there could have been a very significant jump in the bottom line. It is too early to project the bottom line as of now. We are focusing on the operational efficiency, operating profit and other things. So the major factor which we have to factor in is gains from the treasury operations.

Shrinivas Rao: Thank you.

Moderator: Thank you. The next question is from the line of Joy M from B&K. Please go ahead.

Joy M: Sir, I am on your slide number wherein you have declared the rating of the accounts, so once again let me go to that slide #26, external rating of your accounts, so here it looks like, sorry not this one, you had shared one slide on top 50 borrowers right?

Mahabaleshwara M S: Correct.

Joy M: It looks like so AAA eight numbers, AA 6, A 6, so it looks like the 8+6+6, 20 borrowers are A rating or above, the 21st borrower is BBB rated right, you only have 20 borrowers which are A or above, is that right or I mean the 21st borrower is from BBB category and your 34th borrower is actually BB rated, is that right or there is some error here?

Mahabaleshwara M S: We have totally 33 borrowers under the 'BBB and above rated' out of the top 50 and the balance 4 borrowers are BB, B,C & D and 13 borrowers are not externally rated. All the Top 50 borrowers are Standard as of June 2021, whereas last time one account was NPA and this time not even a single account is NPA/SMA2 under that category.

Joy M: Understood, okay.

Mahabaleshwara M S: You may be aware of the fact that we have been slightly over exposed to the large corporates and we were closely tracking the health of these corporates also. Now if you look into this, it constitutes around less than 15% of our total loan book. In these top 50 accounts, stress is not there and also not a single account is in NPA. As of now, all the accounts are performing. We were slightly exiting from AAA accounts only because the

yield was not up to the expected level. So we are little more concentrating on the BBB, A and AA without compromising the quality.

Joy M: Understood Sir and second in terms of your daily recognition, so there was an RBI circular which said that starting from June onwards all banks will have to migrate to Delhi recognition of NPA across all loans, were you already there on daily NPA even for agri and smaller loans or you have migrated in this quarter?

Mahabaleshwara M S: We are one of few banks which are 100% compliant to that particular circular not only as of June 2021, but about five years back itself.

Joy M: Great Sir.

Mahabaleshwara M S: We have introduced the system of daily recognition of NPA, daily marking and even the provision requirement and migration of provision everything is automated and this is being followed very scrupulously at Karnataka Bank since more than five years.

Joy M: Even for agri loans and even small value loans?

Mahabaleshwara M S: 100% of the credit portfolio.

Joy M: Great Sir and last thing on SMA, so clearly you have given lot more details on that investor platform let us say if I look at the SMA2 then the total number is 2200 but the above Rs.5 Crores is Rs.450 Crores only, do you suspect a weakness in the below Rs.5 Crores loan because considering the recovery is still low I mean the monitoring would still be low and hence you may not have much visibility on the health of these smaller value loans, can that be a risk in terms of slippages, these leasable slipping?

Mahabaleshwara M S: We have very clear granular details on each of these loans. As long as they continue in our loan books, we do not differentiate between a small loan or a big loan. Equal amount of effort and attention is given to all those loans and I am very confident of the quality of the loan book and there is no big concern. We have impact center meetings at all levels, huddle meetings at the branch level, daily impact center meetings at the controlling office level, etc., wherein each and every business aspect including collection is discussed and I am also part of the discussion. We also have the digital dashboard for monitoring. This is how it would help us in developing a strong portfolio.

Joy M: Thank you Sir and all the best.

Moderator: Thank you very much. I now hand the conference over to Mr. Aalok Shah for closing comments.

Aalok Shah: Thank you Mahabaleshwara Sir and their entire team for taking all your time and getting forward the thoughts and the results and the digital platform really appreciate that. Thank you all for joining and you may now disconnect. Have a great evening. Thank you Mahabaleshwara Sir.

Mahabaleshwara M S: Thanks for your active and keen participation. Please take care of all those COVID-19 related health guidelines and all the best to each one of you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Monarch Networth Capital Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.
