



“Karnataka Bank's Q1 FY'23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Karnataka Bank Q1 FY'23 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mahabaleshwara M S, M.D., and CEO. Thank you, and over to you, sir.

Mahabaleshwara M.S.: Yes, thank you. Good afternoon and a hearty welcome to each one of you for this Q1 FY'23 Earnings Concall of Karnataka Bank. I am Mahabaleshwara M.S. – M.D. and CEO of the Bank, and I have with me COO – Mr. Balachandra Y V, CBO – Mr. Gokuldas Pai and CFO – Mr. Muralidhar Krishna Rao have also joined online.

To begin with, let me highlight two important things which need to be factored in, while understanding the Q1 Results in its right perspective:

- The first one is MTM losses on investments on account of increased yield. We have made a full provision of Rs.156.59 crores as an investment depreciation provision. And this time the same is debited to interest income as per the extant guidelines. Earlier, such losses used to be debited to provisions and contingencies. As a result, under interest income we are seeing a marginal year-on-year growth of 6.93% only. Otherwise, the interest income YoY growth would have been around 17.21%.
- Secondly, we have a slippage of one corporate credit as on 30th June amounting to Rs.308.01 crores, which has been recovered during the first week of July. Nevertheless, we went by the IRAC norms and treated the said account as NPA and also made full provision. Hence, our GNPA has gone up sequentially to 4.03% from 3.90% as on March '22. In spite of this, on year-on-year basis, it has improved from 4.84% as of June '21 to 4.03%. Had it not been there, the GNPA's would have been further improved to 3.51% as on June '22. Further, it also had an impact on the slippage ratio, which is presently at 1.03%, else it would have been 0.47% as against March '22 slippage ratio of 0.73% and

0.83% as on June '21. Similarly, credit cost, which is shown as 0.69% as on June '22 would have been 0.16% as against 0.21% as on March '22 and 0.45% as on June '21.

- Despite fully absorbing the two hits mentioned earlier, Bank has been able to improve its net profit by 7.63% to Rs.114.18 crores. NII has also gone up by 19.62% YoY. NIM also has further improved to 3.33% as against 3.25% during March '22 and 2.98% during June '21. NNPA's further declined to 2.16% from 2.42% as on March '22, and 3.02% as on June '21. PCR also further improved to 76.77% from 73.47% as on March '22, and 72.16% as on June '21. CRAR is at 15.41% as on June '22, without taking into account the quarterly net profit, as against 14.58% as on June '21 and 15.66% as on March '22. Advances have grown by 13.03% YoY, whereas CASA has grown by 12.51% year-on-year, and the CASA share now stands at 32.80% as against 32.97% as of March '22 and 30.82% a year back.

Going forward, I am confident of keeping the growth momentum in both the two major areas, i.e., credit and the CASA, which have been identified as our focus areas for the current year, besides, further improving the asset quality by focusing on credit monitoring to minimize stress in the portfolio, as well as by minimizing the slippages, so as to further reduce our delinquent assets. Consistency and sustainability shall continue to be the hallmark of our performance going forward.

Further, the board of directors, in their meeting dated 23rd July '22 has fixed 26th August '22 as the date for conducting the annual general meeting, and I request all the shareholders to please make a note of the same.

So, with these few opening remarks, now the forum is open for deliberations. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Yash from Tant Equities. Please go ahead.

Yash: So, I just have a couple of questions, and first, I would like to get a sense of the loan growth ahead. So, if you could give an idea of the ground reality or anything would be great?

Mahalabeshwara M.S.: For this quarter, advances grew by 13.03% YoY, and the major contribution was from agriculture, which grew by 10.28%. Agro-processing which grew by 16.52%. MSMEs grew by 11.27%, and lease rental discounting grew by 10.95%. Of course, we have been focusing more on gold loans also, which have grown by 3.75%, and to a certain extent, car loans by 8.44%, but NBFCs have contributed significantly to the growth. Going forward, we are preparing well to achieve a growth rate of more than 15%. I think that would be a reality from September onwards. So, credit growth, CASA growth and credit quality management would continue to be our priority areas.

Yash: Also, on the treasury income return on the investment depreciation, are you expecting that to subside from next quarter onwards? What is the expectation on that?

Mahalabeshwara M.S.: Yes, slight upward or downward movement could be there because it is, as you know, market-driven, but we believe that, yes, there could be some upward movement during the next quarter, but the majority of the hits, whatever are expected, I believe that they are almost absorbed. Let us wait and watch for that particular moment.

Yash: Also, on what you said regarding the Rs.308 crores corporate restructuring or the amount that come after June quarter-ended, could you tell me, just so that everybody understands very clearly and phased manner, what impact did that Rs.308 crores have on the provision of Rs.298 crores on this quarter in net terms... the total provision this quarter was Rs.298 crores and the Rs.308 crores provision, what impact did that have on this provision. Basically, I'm asking you about the net quarterly profit. What was the exact impact of the Rs.308 crores particular corporate loan on this quarter's P&L?

Mahalabeshwara M.S.: One of the corporate advances has seen a temporary delinquency. However, as of 30th June22 it was NPA and subsequently, the amount was recovered during the first week of July. So, in tune with IRAC norms, we treated that account as NPA and also, we have made a full 100% provision. And there was interest reversal of unrealized interest of around Rs.40 crores. So, that was also given effect to, so with the said slippage interest on loans and advances is Rs.1,246.73 crores which are already shared with you. So, without the said slippage, the interest-earning would have been Rs.1,286.73 crores.

Similarly, the yield on advances with this slippage is now shown as 8.81%. Otherwise, it would have been 9.09%. Of course, it had an impact on the gross NPA, which I have already mentioned. So, now, our gross NPA is shown as Rs.2,401.39 crores, constituting 4.03%. Otherwise, it would have been Rs.2,093.38 crores and 3.51%. Of course, it also had an impact on the PCR, as we have provided fully. So, now, the PCR stands at 76.77%. Otherwise, PCR would have still been above 75%, which means 75.37%. It had an impact both on the credit cost as well as the slippage ratio. Credit cost now it is shown as 0.69%. Otherwise, the credit cost would have been 0.16%. Similarly, now, the slippage ratio stood at 1.03%. Otherwise, it would have been 0.47%. So, in all the areas, it has an impact, but nevertheless, during the July first week itself since it is recovered, these things would get further factored in when we announce our September quarter results.

Yash: So, my main question was so that the investors understand it. Out of the Rs.298 crores provision, and out of the Rs.308 crores loan, how much is provided for in this quarter alone?

Mahalabeshwara M.S.: Rs.290 crores is provided during this quarter itself for the NPAs.

Yash: Rs.298 crores is the total provision that you've made, right, in this quarter?

Mahalabeshwara M.S.: Total provision held for the said account is Rs.308 crores.

Yash: Rs.308 crores is that loan that you –

Mahalabeshwara M.S.: Yes, Rs.308 crores is the slippage, and we have Rs.58 crores earlier provision. Around 250 crores is the current quarter provision for the said loan account.

Yash: So, basically, we will see Rs.250 crores reverse from this quarter to the next quarter because it's being provided for, am I right?

Mahalabeshwara M.S.: Yes. Correct.

Yash: So, basically, just to put it in a very simpler and more understanding term, without this account, your total provision would be Rs.50 crores. Am I getting the digit right?

Mahalabeshwara M.S.: Our provision would have come down to Rs.50 crores.

Yash: So, since your total provision was Rs.298 crore, your provision would only come up to Rs.50 crores-odd, right, this quarter?

Y V Balachandra: That was a restructured account where we are holding standard advance provision. Standard advance provision, as the account slipped to NPA, was no more required. The provision now made is only towards the NPA. So, net to net, I am writing back the standard advances provision of Rs.58 crores whereas creating a new provision towards NPA of Rs.308 crores.

Yash: So, net-net, that will have an impact of Rs.250 crores when you write the NPA part in the next quarter, right?

Y V Balachandra : Yes.

Yash: Also, sir, for the last two quarters, I've been consistently asking you about the update on the fundraising plans. Recently, you took another provision of Rs.1,000 crores. Could you tell me more about that what's happening in that? If my question doesn't make sense, you can tell me whatever you can tell.

Mahalabeshwara M.S : What I can share with you right now is that capital augmentation is a continuous process. Still, we are evaluating the various opportunities. And now you may have noticed that our CRAR has further improved to 15.41%. And by March '22, we have already raised a debt of Rs. 300 crores. As a result, the CRAR is above 15%. So, QIP and other related issues would continue to engage our attention. At the right time and at the right price by duly taking care of the interest of the investors and all, a call would be taken going forward. So, keeping that in mind, in our 26th August AGM, we have also put an enabling resolution to take care of that going forward.

Yash: So, what does the enabling provision do, sir, if we vote for it?

Y V Balachandra : QIP resolution is valid for one year and the earlier resolution was passed in the previous AGM. So, a similar type of resolution we are putting forth before the shareholders in the ensuing AGM scheduled for 26th August.

Yash: So, before the deadline for the AGM was by September, right, for the fundraising for the QIP. So, basically, what you're doing is you're taking more time for the QIP?

Mahalabeshwara M.S : No, it is not like that. As I said, as of now, it is a continuous process. We are just waiting for the appropriate time. So, to ensure that as AGM resolution is a must, we are proposing an enabling resolution for the same.

Yash: As an investor, I would like to know the book value of Karnataka Bank right now is somewhere around Rs.240. What I would like to know as an investor is that when you're going ahead with the QIP and when you're raising funds, what kind of price-to-book value would you look at as a minimum threshold for raising funds?

Mahalabeshwara M.S : That is why our Committee of Directors, that is a committee of the Board, is also evaluating all these points. Very recently, we have deliberated all these things. So, that's why I said at the appropriate time, an appropriate decision would follow.

Yash: So, you won't be able to share a minimum threshold of price-to-book value for QIP?

Mahalabeshwara M.S : When we arrive at a final conclusion, definitely, all your suggestions would be factored in.

Moderator: Next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: In continuation to our earlier investor, sir, if you could give us some ballpark idea of what are the enabling factors, whether it is on the operational front, that will lead to this triggering you to go for this equity raising, and at that time, what would be your Basel requirement for which you would be raising this fund, what percentage are you eyeing from it? And since our provision coverage ratio is at a high of 75%, where does this requirement? Will it be a growth capital? If you could elaborate further on the same?

Mahalabeshwara M.S.: As you have rightly pointed out, we have been focusing on further improving the fundamentals. So, you might have seen how the PCR is

consistently improving. NIM is also consistently showing a positive traction and how we have been able to bring down the GNPA's as well as the NNPA's and how our CASA is fairing consistently over the period. And of course, in the long run, we have also improved the CRAR. Now, we are not that desperate to increase the capital because the growth capital as of now looks adequate. But you may also understand to note that it is a continuous process and when the market is very congenial for that, we should be able to encash that opportunity. So, that is what I can share with you. All options are kept open. It is being evaluated. So, depending on the need for the Bank as well as by taking care of the stakeholders' interest, we will be taking an appropriate call on the fundraising.

Saket Kapoor: Just to deliberate on it, will it be in the form of equity issuance only, or can we opt for other norms like bonds and other equipment?

Mahalabeshwara M.S.: It depends on the market.. Last time we were exploring equity, but all of a sudden, there was good scope for raising through the bonds, as the market was not congenial because of the Ukraine-Russia war for raising through QIP. So, we are exploring all the options. Whichever is found convenient for the Bank, that option will be explored.

Saket Kapoor: Sir, bond issuance, what was the coupon rate in the last six months and what was the amount?

Mahalabeshwara M.S.: 10.70% p.a.

Saket Kapoor: And what was the amount we raised?

Mahalabeshwara M.S.: Rs.300 crores.

Saket Kapoor: That was totally for the institution only, or do the retail and others, the SMA category, also participate?

Mahalabeshwara M.S.: Yes, eligible institutional investors only.

Saket Kapoor: In this increasing interest rate environment, we can also look to raise capital through your existing shareholder base in the form of this bond issuance through your investors also. It was only the institutions that benefited from this

10.7 interest rate advantage and smaller investors or the HNI category. Since the market is not well-developed, sir, I can understand that it is difficult to raise these amount of funds, but work can be done on raising, and you can also come with perpetual nature wherein you can come with a call option, wherein you can redeem the same also at short notice. So, things can be structured in that manner. That was a very basic understanding from my side. Your comment on the same, sir.

Y V Balachandra : Yes, what is happening in the case of the bond issue, this is a subordinated bond issue, and as per the regulation, it is only meant to be issued to the QIBs. The face value is also Rs.1 crore. Therefore, retail selling of this instrument, even on a public issue, is not possible.

Saket Kapoor: Currently, sir, we have seen the softening of the GSec yield over a period of the last 20, 25 days from a high of 7.67. I think it is currently at 7.36. Also, taking into account the upward revision in the interest rate that is expected going forward also. How is our portfolio currently aligned if GSec features are higher than what they were earlier? How the portfolio is marked so that the MTM impact could be higher is hardened. How are we aligning our portfolio currently, or do we have to face the vagaries going forward?

Mahalabeshwara M.S.: It all depends on the yield movement, but I personally feel that the major impact is already factored in. Going forward, if at all there is any impact, it would be a marginal one.

Saket Kapoor: On the ROA improvement part and the employee cost part, if you could throw some more light?

Mahalabeshwara M.S.: Yes, another plus point is about 52% of our advances are already linked to the External Benchmark Lending Rate (EBLR). As and when the yield movement is there, naturally, this also gets improved. Even though there is some marginal impact on the MTM losses and other provisions requirement, we are also going to be benefited because around 52% of our advances is already linked to the EBLR. Hardly about 26% is under the MCLR. The benefit in terms of increased yield on advance will be instantaneous. So, that is what we have been observing. I think we should be able to make good of that by

earning more and more interest income going forward on account of this particular factor alone.

Saket Kapoor: On the employee cost front, there have been some lower charges on account of employee cost if we take year-on-year numbers also and definitely March numbers also?

Mahalabeshwara M.S.: Superannuation benefit has come down again because of the yield movement. Going forward also, during September, it is likely to show the same trend, of course with a lesser magnitude.

Saket Kapoor: Sir, you also mentioned in the earlier reply that post-September we are looking for good quality numbers to come for the Bank. So, what are you expecting for this quarter that will disturb the sector or there would be a lower trend?

Mahalabeshwara M.S.: I consider this quarter's number also very good except for one account which we decided to treat as NPA as of June which is purely in tune with the IRAC norms. That is why I have given the comparative position of both the scenarios. That is why I said consistency and sustainability, which we have been focusing on the last couple of years. We will definitely be able to take it to a new high.

Saket Kapoor: And on the return on assets(ROA) improvements,?

Mahalabeshwara M.S.: For this particular quarter, it is 0.49%, and last year for the full year also it was at 0.49%. So, going forward definitely, it will show positive traction.

Saket Kapoor: What should we look forward to this year, likely trajectory at least, sir?

Mahalabeshwara M.S.: It will be positive, but the exact number I may not be able to share with you right now.

Saket Kapoor: The last point is on the tax expense reversal. There is a reversal of Rs.64 crores on the tax expense account for this quarter.

Y V Balachandra : This is on account of availing the tax benefits, on account of making provision for NPAs, etc.

Saket Kapoor: This will also get reversed for the September quarter. When you are reversing the same, does the NPA get reversed into a standard account?

Y V Balachandra : No, may not be in exactly that range. It all depends upon, again, the benefits available at that point of time for a provision for NPAs and also the other income tax benefits to be taken in banking.

Saket Kapoor: Only to understand, when we have taken this quarter provision because of that Rs.308 crores account, there is a reversal of tax expense. So, if you could quantify what amount of reversal is attributable to that account, then we can understand that reversal is surely going to happen for the next quarter, and there will be higher tax incidence for the coming quarter? Certainly, not a reversal.

Y V Balachandra : No, no, I got your point, but what happens on account of that one major account making full provision, there is a substantial benefit from the point of the income tax also. But again, in September, when we are making the provision for taxation and also finalize the result, to what extent we will be creating or improving our PCR, that also counts while we take the benefit of the taxation. Therefore, certainly, there will be some kind of a different scenario and impact. I cannot say it will be again writeback, but it all depends upon the tax planning we will be making as of 30th September.

Saket Kapoor: And also on the income profile, tax planning will come only on the basis of what income you are accruing for the quarter?

Y V Balachandra : You are right.

Saket Kapoor: Sir, currently, we have engaged Dickenson as our new IR agency, sir?

Mahalabeshwara M.S.: Yes, recently we have entered into that kind of an arrangement for providing the investor relations services. So, going forward, they will be acting as an IR agency for Karnataka Bank.

Saket Kapoor: One apprehension, sir, we as investors, sorry to use the word, but it is the fact that we investors are currently having not only with Karnataka Bank, not to name your competitors on this platform, but everybody has taken or will take advantage of when the market is conducive to raise equity and dilute your existing shareholder value. So, it is detrimental to decrease our value or

detrimental to the value creation process, sir, if you come up with an equity issuance wherever the market is never giving you even for that not even 5.5 times, and whatever will be the appreciation in your profit going forward, whatever explanation you have given, even then also it is hard to believe that you would be able to raise capital at even 0.6x or 0.7x book. So, going forward, this equity issuance more or less will be detrimental to your existing investors. Sir, clear my doubts on this front where I am incorrect?

Mahalabeshwara M.S.: Mr. Saket. Your sentiments are also taken into account. So, that is why I said we have been evaluating. We have not hurried up with raising of capital. We have been interacting with you on this particular issue for the last one to two years. So, we, too, are not interested in issuing the shares at a very, very low price because it would be not only detrimental to you but also not favourable for the Bank. That is why I said, before we come to a final conclusion, we will take all these factors into account. That is the feeling of the Board also. Many a times, we had an in-depth discussion on this point. So, the only comfort is that CRAR is at a reasonably comfortable level. As other fundamentals are also improving, let us hope that market will also take note of all these positives and behave or perform as per our expectations going forward so that we should be in a better position to take care of the interest of all the stakeholders.

Moderator: Next question is from the line of Gansham Agarwal, an individual investor. Please go ahead.

Gansham Agarwal: Sir, I have been an investor in this company for a long. Sir, I have one specific question about the account. So, this reversal of Rs.300 crores that had happened, so, is there any likelihood again this account will become an NPA or again there will be a provision for it or is it just like the probabilities on a lower neutral side?

Mahalabeshwara M.S.: It is recovered. Only a small portion of the penal interest is pending. It is not just upgraded. It is recovered.

Gansham Agarwal: My second question would be since May 2019, what I'm watching, the share prices have gone down dramatically, and we know that the markets are way smarter than us. As an investor, I don't find the real rate of return. I mean, I'm

not even getting my interest amount. The rate of return is on the negative side. So, this is very much concerning as a retail investor, like I have quite a substantial amount of shares. And secondly, like why can't we find alternatives and place at least some amount... this is just a suggestion, 4% to 5% of our equity to some private placement because mutual funds are also not holding our shares excepting LIC for 4.68% mutual funds all sold off our shares from say May 2019 till date.

Mahalabeshwara M.S.: All-out efforts are being made from our side to improve the fundamentals and to improve the business. Definitely, that is well within our reach and we are showing the improvement in results quarter-on-quarter. Market sentiments also, I'm confident that going forward, it would definitely take note of all these positive things. And definitely, going forward, and we should be able to come up to the expectations of the retail shareholders. Your observations & suggestions are noted, and we will continue to make honest efforts to take care of them going forward.

Moderator: The next question is from the line of Sushil Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey: I just wanted basic guidance on some of the parameters on CD ratio, credit growth, cost-to-income, and your gross NPA, and net NPA first start with?

Mahalabeshwara M.S.: CD ratio, we are aiming for about 73% to 75% going forward. And the second one is credit growth. As I said, it will be 15% plus because I have a good number of credit proposals which are in the pipeline. And both the NPAs, i.e., the gross NPA and net NPA would continue to show a declining trend because the stress is not piling up. Our effective recovery management and also good recovery in the existing NPAs, either the recovery or up-gradation, are happening as per our plan. So, in all the areas coupled with the growth, I have a positive outlook.

Sushil Choksey: Credit cost guidance for the year, sir?

Mahalabeshwara M.S.: Credit cost, as I said, for this particular quarter, it stood at 0.69%. So, not just on account of the slippage, as we are still focusing on improving the PCR.. On account of this, it may slightly go up. Last year our credit cost was

1.04% for the full year. So, this year, it could be somewhere around 0.5% to 0.6%, or less than that.

Sushil Choksey: Ideally, what PCR would you like to maintain for the year and for the future?

Mahalabeshwara M.S.: PCR, my earlier plan was to bring it to above 70%. We have accomplished that as of March '22. So, now somewhere around 72% to 75%.

Sushil Choksey: Our presentation is very elaborate and very informative. You already highlighted the non-performing account, which was recovered a couple of days after the quarter ended, but technically, you had to make a provision. Is it possible to you to divulge a corporate account that we can make out? Was it a state government or a private account?

Mahalabeshwara M.S.: It may not be appropriate on my part to divulge the details. I said it's a corporate account. So, it was expected to be closed by 30th June. It didn't happen. Subsequently, they closed it. That's all.

Sushil Choksey: What's your guidance on employee cost on quarter-on-quarter or annualized, because the numbers are quite varying between quarter-on-quarter?

Mahalabeshwara M.S.: The main reason is the superannuation benefit. The salaries there was no significant jump. And going forward, as I said, we have also activated our subsidiary, KBL Services Limited. which is also helping us in cost rationalization on employees. Of course, it is a long-drawn process. So, the efficiency would gradually be seen when we are actively engaging with our subsidiary. It is just one year old now.

Sushil Choksey: As per your guidance, whatever you provided, the NIM should be sustainable, and you will not need equity for the current year based on the projection which you are giving. And as and when you need equity, will it be only for growth capital, or do we need equity for some other thought processes?

Mahalabeshwara M.S.: NIM, yes, definitely, it is sustainable and presently it is at 3.33%. I think we should be able to improve it further. And your second part of the question, capital requirement, if at all it is there, it is mainly as growth capital.

Sushil Choksey: Then, listening to all your answers and listening to all the other participants who have been existing shareholders, would it not be at an appropriate time when the prices are right to do a small rights issue and raise Rs.200, 300 crores in favour of existing shareholders who not only help growth capital but also get rewarded in some fashion, as certain yield for the earning potential with the Bank is definitely showcasing for quarters and years to come by?

Mahalabeshwara M.S.: Your suggestion is well taken. What I said is we will evaluate it. But some of the investors have advised us not to explore the rights issue because, again the dilution as well as bringing down the value of our own share. But anyhow, we have an open mind, and we will evaluate all the options.

Sushil Choksey: Sir, I don't think the valuation of existing shareholders would get diluted in a rights issue if you do it at the appropriate time. I understand the current book value and the market price may be a function which is more of the current market situation on the banking stocks where sellers dominate. But I think looking at the step and the direction which I see from your numbers, I'm quite sure that the Bank would be rewarded in the marketplace in the quarters to come by, and appropriate step in the right direction by meeting investors would be held.

Mahalabeshwara M.S.: Good. I endorse your optimism.

Moderator: The next question is from the line of Mr. Gansham Agarwal, an individual investor. Please go ahead, sir.

Gansham Agarwal: So, after this adjustment of Rs.300-odd crores, so, effectively, this quarter EPS would be around Rs.8-9, which is again correct? Please correct me if I'm wrong here.

Mahalabeshwara M.S.: I have not done the calculation. So, if you've done the calculation, please share it. I have not gone to that extent.

Gansham Agarwal: Basically, because Rs.250 crores of reversal and Rs.100 crores of profit, so, it will be around Rs.300-odd crores, 31 crore is the shares issued, so, it will be around minimum Rs.8-9 EPS as against Rs.3.61.

Mahalabeshwara M.S.: Maybe arithmetically, you may be correct, but while finalizing the balance sheet, there are so many other issues which also get factored in.

Gansham Agarwal: Because we're just wondering like in spite of this effective performance by the Bank, Rs.4 dividend is also there, everything is there, but the return on the equity is not there as an investor.

Mahalabeshwara M.S.: We are addressing that issue. Going forward, I think we should be able to effectively address this issue in a more significant and effective manner. Stress has already been arrested, and the credit portfolio, whatever now we are building, stress factor is taken care off. So, naturally, it should result in an improved return on assets.

Gansham Agarwal: Karnataka Bank is more focused on the southern region of India. So, are we looking at expanding our base or growing more on the east or west or north side?

Mahalabeshwara M.S.: Wherever there is a business opportunity, we are expanding, but we feel that since this is a digital era, we are focusing more on digital touchpoints rather than brick-and-mortar touchpoints. So, my growth area is around 12 states in the country where there is very good business potential. So, we have a plan to expand our business basically in these 12 states and our branches number may touch 900 during the current FY.

Moderator: The next question is from the line of Mahesh M B from Kotak Securities. Please go ahead.

Mahesh M B: So, just two questions. One, on the ground, if you could just kind of give us a colour on, let's say if you're undertaking recoveries, how has been the progress on that front with respect to the time taken and the value of the collateral that is sitting there? Second, when you are speaking to your loans team, what is their sense, how is the demand environment and whether the borrowers have reached pre-COVID levels in terms of revenues?

Mahalabeshwara M.S.: I will answer the second question first. The demand is picking up. As I said, in fact, we have seen this demand curve going up during the fourth quarter of the previous year itself, and it has further sustained during the first

quarter. Even now also, the credit growth, especially in the ticket size of Rs.1 crore to Rs.100 crores, is very robust. The second one is you made a reference to loan recovery. Is it the NPA recovery? What is it, Mahesh?

Mahesh M B: Yes, NPA recovery.

Mahalabeshwara M.S.: NPA recovery is also on the expected line because we have a good number of proposals, where the borrowers have come forward for the OTS. That is the reason why our NPAs have reduced. If you exclude this Rs.308 crores, the fresh slippage is very minimal. So, I'm confident of sustaining recovery going forward also.

Mahesh M B: In the sense that when you look at your retail and mid-corporate book, which contributes to a little over 80% of the book today, and when you're putting those assets on auction, the preferred option is still the auction route or one-time settlement seems to be the only way out to resolve the underlying account?

Mahalabeshwara M.S.: Now, what we have done is we have started an e-mega auctions at least once in two months. So, that has had a very positive impact. There the auction success rate is also high. And those who are with an immediate option of the settlement are also coming out with the OTS route. That is the reason there has been a positive movement in the NPA portfolio and the majority of the accounts are getting settled either through the auction process or through the OTS process. We have been able to sustain this momentum. I'm closely watching the movement in the NPA portfolio. Quarter-on-quarter, there is a sustainable momentum.

Mahesh M B: Just to confirm this, in your assessment, the gross NPAs are at around 4%. Where do you see this ending the year based?

Mahalabeshwara M.S.: I have already given that comparative number. So, I think we should be able to have GNPA at around 3%.

Mahesh M B: And the net NPA?

Mahalabeshwara M.S.: Net NPA is already at 2.16%. So, I think maybe at the same level or slightly below because it again depends on how much provision we are going

to make going forward. So, most probably, around 3% GNPA and around 2% NNPA looks quite possible, that is the visibility that we have right now.

Moderator: Next question is from the line of Vimal Panchal from Vimal Panchal & Associates. Please go ahead.

Vimal Panchal: We are a private sector Bank. Yet we do aggressively participate in social schemes launched by the government, like Jan Dhan and all these things. Yet as a private Bank, we do not get a significant pie of government business in the form of deposits and transactions. So, around say five, six years ago at Mumbai analyst meet, you told that our Bank is aggressively approaching to get the business from the government, both from the central as well as state government. My question is, what is the progress in this regard because we are losing very significantly with the Canara Bank and all these things? That's my one question. Another question is one of the quicker ways to increase price-to-book value, or underperformance of the share prices is buybacks. So, has management explored this way because the question is not proper because on the one hand, we are looking for the growth trajectory, and we are looking for the fundraising, but buyback is also one of the best ways to raise the share price and all those things?

Mahalabeshwara M.S.: You have two questions. On the government deposit, about one and a half years back Government of India provided a level playing field for the private sector banks to have government business. So, we approached the Reserve Bank of India and Karnataka Bank is now empanelled as an Agency Bank for government business. With that, we are now approaching all the governments, both the state governments as well as the central government and this departments and some headway we have already made. We have started one exclusive government agency business cell also, headed by a competent executive. So, a lot of efforts are being made. And we are also getting empanelled for the tax collections. And our IT enablement, is also being taken up in a fast forward mode. All these things would definitely help us to get more and more CASA and also some other related benefits. As far as the buyback is concerned, it is right now not being explored. I think the time may not be ripe for us to explore that. Going forward, let us see what would be our action point for that particular suggestion given by you.

Vimal Panchal: Our new IR agency Dickenson is very good. Kindly continue with them.

Mahalabeshwara M.S.: Thanks for the feedback.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: In the case of our loan book, what is the type of stress test that is done? Also, how are we making use of AI in contemplating the slippages in advance? I think so earlier during calls, you spoke about artificial intelligence as a source by which you would be knowing when a retail account can fall NPA or what factors will lead to you can take corrective measures. So, where are we in terms of that acknowledgement?

Mahalabeshwara M.S.: We have already started our Digital Center of Excellence (DCOE), which is now spearheading our digital underwriting of the loans. Along similar lines in our KBL Nxt transformation initiative, we have started the initiative of (ACOE) Analytical Center of Excellence. Maybe in another two to three months, I should be able to ensure that this is up and running. There, this analysis will be made, and one among them is some projection or estimation well in advance, what would be the behaviour of the advances portfolio, apart from ample opportunity for cross-selling and other things. Nevertheless, even without that, right now, we have our internal assessment based on the early warning signals. As a result, when we have the ACOE, I think we will still be in a better position to have an effective collection and in minimizing the stress. So, that is why I'm optimistic that the portfolio is behaving as per our expectations with lesser stress, eventually helping us in having minimum slippages going forward. So, things are moving in the right direction.

Saket Kapoor: Sir, I was just deliberating on the point of perception, sir. When our books are quoting price-to-book and book value and the same stock trades at only a percentage of what value is, there is a lack of confidence, and there is a different perception in the market, sir, about what your accounts are speaking and what the market is perceiving. And as an earlier friend has mentioned that markets are always smarter, sir. There is always a buyer and seller for your stock. So, it is very confusing for retail investors or HNI or who's putting money into banking stocks, in particular, getting this perception deficit out of

the system. What steps can the management take going forward to bridge this perception gap, sir? In fact, it was South Indian Bank itself that also gave us very holistic commentary and then came up with a QIP issue at Rs.8 per share, thereby diluting the existing shareholders' value, as they also gave the same commentary to the investor that at an opportune time taking into account all the factors they will go ahead with the issue, but they went ahead, and they diluted 5% issued at Rs.8. So, that is the apprehension in investor's mind with a perception our mid-size Bank in concentrated geographies. Firstly, my understanding is that this perception factor needs to be clear. You have good IR people like Dickenson and all. They are doing a commendable job. So, first try to bridge this gap of perception deficit phase that is happening in the market, sir. Otherwise, why the market with these numbers will not command a book value of even 0.6 or 0.7 times? Forget the one that is able to get for Federal Bank and all. So, we cannot match them today. This is the holistic point, sir. We are doing a conference call, we are doing all the good things, which the management can do inclusive of the presentation, concall, meeting the investors, but what is a moot point, why it is not getting reflected? So, try to engage other agencies, try to engage the people who understand the market perception better than us because your work is to get the operational performance of the Bank improved. It is impossible for you to take note of the market perception. So, kindly engage with the right set of people, kindly get the right set of advice, and create what you want to do in a holistic manner. So, this is what the point is. Other than that, everything is in black and white. You have been explaining to us for the last one hour.

Mahalabeshwara M.S.: Thank you. I think as far as the thought process is concerned, both of us are on the same page. And with that intention only an IR agency that is an expert in giving dissemination of the right information to the market, is engaged. So, let us be optimistic. I think things will settle down going forward. Thanks for your very critical input.

Moderator: The last question will be from the line of Mr. Suraj Das from B&K Securities. Please go ahead.

Suraj Das: I have just two questions. First is on your staff cost. You have explained that the staff cost YoY and QoQ is because of the yield movement, which is having

an impact. So, I just want to ask, if you can quantify that impact or let's assume the yield stays where it is right now, what would be the run rate for the staff cost for the next couple of quarters?

Management:

As you have observed, the establishment component consists of two elements. One is for the salary of the serving employees; another is a superannuation benefit. Salary, in any case, we are part of the industry-wide settlement. As and when any DA increases are there, it is also getting factored in. The second important factor is the superannuation benefit. It is based on the external evaluation wherein all these discount rates, etc., are also taken into account. It is on estimation basis for the year for all our superannuation benefits which includes pension, gratuity, leave encashment and also unused sick leave. These are the four elements which are going into the actuarial valuation. So, for the quarter of June '22, there is a writeback of Rs.19.39 crores in respect of superannuation benefits additional contribution. So, it is once again dependent on the discounting factor, that is going into the actuarial valuation calculation.

Suraj Das:

What would be the expectation for the next couple of quarters?

Management:

Can you repeat the question?

Suraj Das:

Can you guide us for the next couple of years, whether it will remain at the same level of, let's say 180, 190 crores?

Mahalabeshwara M.S.:

It could be in the same range. What I'm saying is there will not be a significant jump as far as the salary is concerned even though we are a part of IBA. But going forward, IBA settlement-related things have just commenced. Once in five years, it happens. So, we have already started factoring in that also. But we have been very cautious in ensuring that our turnover per employee, turnover per branch and operating profit per employee are continuously on increasing mode. So, the productivity aspects also we are taking care of. I'm not expecting a very big jump in the establishment expenses, excluding superannuation benefit. Internal factors, wherever we are able to have effective control, we will continue to exercise care as has been done in the past.

Suraj Das: The last question from my side would be, you have guided that 15% YoY growth expectation. What would be the segment, or let's say, what are the areas which are expected to be the key growth drivers?

Mahalabeshwara M.S.: As far as the ticket size is concerned, it is the retail and mid-corporates. ie., retail up to Rs.7.5 crores and mid corporates up to Rs.100 crores. And the preferred areas would continue to be agriculture, MSMEs, and of course, gold loans and personal loans and some scope for the lease rental discount, as well as there is good scope for the NBFCs. So, these are the emerging areas which have shown positive signs of healthy growth. So, we will be focusing on those areas besides our schematic lending, including the home loans.

Moderator: We have reached the end of the question-and-answer session. I would now like to hand the conference over to Mahabaleshwara M S for closing comments.

Mahalabeshwara M.S.: Thanks for the participation of all the investors and analysts. Things are on the expected line and I'm sure that going forward, we will be consistent and sustainable in all our aspects and give more focus on further improving the fundamentals and also in improving the value creation for all the stakeholders. Once again, thanks for your active participation. Thank you very much.

Moderator: On behalf of Karnataka Bank, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.