

Conference Call Transcript

Event: Karnataka Bank Limited Conference Call

Event Date/Time:

Karnataka Bank Limited**CORPORATE PARTICIPANTS****P. Jayarama Bhat**

Managing Director and Chief Executive Officer – Karnataka Bank Limited

CONFERENCE CALL PARTICIPANTS**Ritika Dua**

B&K Securities – Mumbai

Kaitav Shah

Anand Rathi–Mumbai

Nilesh

Edelweiss – Mumbai

PRESENTATION**Palak – Moderator**

Good evening ladies and gentlemen, I am Palak, the moderator for this conference. Welcome to the conference call of Karnataka Bank Limited. Mr. P. Jayarama Bhat, will be your call leader today. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants in the conference. Now, I hand over the floor to Mr. Jayarama Bhat. Thank you and over to you Sir!

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

Thank you. Good afternoon everybody. Thanks for joining for this concall for the financial results of Karnataka Bank for the year ending March 2014. To give you an introduction, Bank has done fairly well in its performance. The deposits have grown for the year at a rate of 12.55%, advances grew by 12.45% and assets grew by 13.25%. Total income grew by 12.79%, expenditures grew by 13.63% and operating profit went up by 8.14%. Net profit there was a dip from 348 Crores to 311 Crores a dip of 10.64%. The net interest income has gone up by 16.86% and year-on-year NIM has shown an improvement from 2.31% to 2.40% ROE has slightly come down from 12.76 to 10.53 and ROA stands at 0.71% and earnings per share is at a level of 16.51%.

Quarter-to-quarter the net profit has increased from 67.39 Crores to 81.21 Crores showing a growth rate of 20.51%, I am talking about quarter-to-quarter that is last quarter of last year to last quarter of this year, our net interest income has also grown by 12.89% NIM being 2.17%.

Then coming to the NPA level, NPA as of March 2014 gross NPA stands at 835.93 Crores forming a percentage of 2.92% compared to the sequential previous quarter of 996.81 Crores that is 3.65% and the last year's figure of 2.51% that is 638.86 Crores that is year-on-year there is an increase in NPA but during the year NPA had gone up and that we had contained and the NPA level could be brought down from 3.65% to 2.92%. Net NPA stands at 1.91% and we had contained slippages over the four quarters this year and from the three quarters earlier the slippages in the second quarter it was 238.90 Crores, the third quarter it was 121.33 Crores and the last quarter it was 84.87 Crores. This means we were monitoring the NPAs very closely and going forward we had set a guidance of gross NPA at a level of 2.40% and the NPA at a level of 1.50%.

Then coming to CRAR we are at 13.30% as against 13.22% last year. This year the CRAR could be increased by the transfer of profits and we had not gone to public or subordinate bonds. The breakup of CRAR of 13.30% as per Basel II is Tier I is 10.82% and Tier II is 2.48% and as per Basel III CRAR stands at 13.20. The capital funds for Tier I stands at 3052.18 Crores and for Tier II it is 699.34 Crores total comes to 3751.54 Crores. Restructured assets stands at 1861.33 Crores at the end of this year compared to 1703.03 Crores last year and out of which NPA stands at 176.86 Crores, restructured assets for the last year to this

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year slippages to NPA was to the extent of 30.15 Crores and this particular last quarter the slippages was to the extent of around 2.59 Crores.

The cost of deposits stands at 7.90 as against last year's figure of 8.14, yield on advances 12.17 as against 12.62 and the yield on investment 7.48% as against 7.57%. We could reduce the RIDF. We were at 2737 Crores last year, yearend it has gone down to 2662 Crores and we have got the net refund of 375 Crores. We have been concentrating on retail advances and retail to corporate percentage stands at around 48% to 52% as against it was 46.27% is to 53.73% last year and we have recommended a dividend of 40% with the dividend payout ratio of 28.36% including tax.

Book value of our share has increased from Rs.151.70 to Rs.162 and the provision coverage ratio stands at 53.21% and CASA percentage stands at 25.40% as against 24.91% last year. We have published our analysis in the website also and you can get all the particulars in the website. We have also given our press release in the website. Coming to the provisions, last year the provisions were 171.15 Crores for the full year as against this year it was 278.39 Crores and including tax the total provision comes to 287.25 Crores was the last year. This year it is 376.01 Crores.

The standalone quarter that is Q4 2013 to Q4 2014, Q4 2014 the provisions were 38.39 Crores and Q4 2013 it was 54.29 Crores that means provisions for NPA in the quarter-to-quarter it has come down from 49.72 Crores to 39.59 Crores.

These are some of the highlights of our performance and the one more thing is year-on-year we have shown an increase of other income from 397.64 Crores to 505.5 Crores showing a growth level of 27.15%.

I leave the floor to the audience for any questions.

Palak – Moderator

We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press *1 on their touchtone enabled telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. To ask a question, participants may please press *1 now. The first question comes from Ms. Ritika Dua from Mumbai. Ms. Dua, you may please ask your question now.

Ritika Dua – B&K Securities – Mumbai

Good evening sir. Sir just few housekeeping questions; if you can get the breakup for the fourth quarter provisioning and the fourth quarter other income.

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

Fourth quarter provisioning the provision for NPA is 39.59 Crores, depreciation investment 2.73 Crores, provision for standard assets 1.14 Crores and provision for contingencies, (indiscernible) and fair value everything is -5.07 total comes to 30.39 Crores then there was a tax reversal of 30.45 Crores so total it comes to 7.94 Crores and then the other income breakup the FY 2014 total income was 505.5 Crores and in the entire year as against the commission have increased from 187.15 to 213.65 Crores sale of investments it was 53.09 in FY 2013 it has increased to 101.69 sale of assets from -1.69 to 1.73, exchange profit has gone up from 33.25 to 39.22 Crores and others 125.82 Crores to 149.26 Crores total it has gone up from 397.64 Crores to 505.58 Crores. Expenditure has gone up from 666 Crores to 874.60 Crores.

Ritika Dua – B&K Securities – Mumbai

That is helpful sir. Sir just some outlook on for FY 2015 so what kind of our growth are we looking at? This year we have not grown much so are we looking at a better growth next year and also sir similar kind of an outlook for the slippages? We have always like you have been mentioning in your opening remarks that we

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are looking into asset quality very closely so still sir like this time the number is significantly lower can we actually expect this kind of a trend to continue in FY 2015?

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1:

Definitely we want to bring down this NPA as I have told in the beginning it was upto 2.4% and net 1.5 % and we have now placed the three ARMBs at metros to monitor these NPAs and definitely it will help us and going forward as I told, guidance is 2.4 and 1.5. What is your other question?

Ritika Dua – B&K Securities – Mumbai

Sir the growth outlook for FY 2015?

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1:

Growth outlook for the business, business we are targeting a business turnover of 83000 Crores comprising deposits of 48000 Crores and advances of 35000 Crores. This translates into a growth percentage of 20% turnover with advances growth at a level of around 23% to 24% and presently we are having a CD ratio of around 69.9% we are targeting a CD ratio of around 72% for the fiscal end.

Ritika Dua – B&K Securities – Mumbai

Sir just two more questions if I can. Sir do you have a pipeline for restructuring for the fourth quarter?

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1

Yes fourth quarter, total restructuring amount was...

Ritika Dua – B&K Securities – Mumbai

Sorry sir the pipeline for...

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1:

For the next year?

Ritika Dua – B&K Securities – Mumbai

Yes sir.

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1:

Generally some few accounts to the extent of around 200 Crores which is in the consortium we have to fall in line with the consortium otherwise around 200 to 250 Crores restructuring maybe there and going forward it maybe in the first or by the end of the second quarter then going forward we do not expect much restructuring.

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Ritika Dua – B&K Securities – Mumbai

Sir any NIM margin outlook if you would want to share with us?

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1:

NIM margin outlook we want to reach around 2.8% to 2.9%.

Ritika Dua – B&K Securities – Mumbai

That is quite high mean that is like a 40 basis points increase but the last time there is the loan book are you looking going into FY 2015 to help us achieve this?

P. Jayarama Bhat – Managing Director and Chief Executive Officer – Karnataka Bank Limited 1:

There are two things one is that we want to increase our CD ratio to around 73% and we are expecting much repayments on the RIDF and also we are concentrating an increase in the CASA which is in the upward trend now we have already crossed 25% CASA and going forward even though we have a guidance of reaching around 26.5% we want to cross it and reach around 27% - 27.5% this will definitely reduce the cost of deposit and likely that our NIM will move up.

Ritika Dua – B&K Securities – Mumbai

Alright sir and that is it from my side.

Palak – Moderator

Thank you very much Ms. Dua. I request participants who wish to ask questions may please press *1. The next question comes from Mr. Kaitav Shah from Mumbai. Mr. Shah you may please ask your question now.

Kaitav Shah – Anand Rathi – Mumbai

Good evening sir. How are you?

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

I am fine. Thank you Mr. Kaitav.

Kaitav Shah – Anand Rathi – Mumbai

Sir first of all some data keeping questions for the quarter so what would be the NIM for the quarter, reported NIM?

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

For the quarter was 2.17%.

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Kaitav Shah – Anand Rathi – Mumbai

Okay now the yield on advances?

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

12.17 for the year. Yes for the year 12.17.

Kaitav Shah – Anand Rathi – Mumbai

Yes, sorry for the quarter?

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

For the quarter I will give you later I do not have that right now.

Kaitav Shah – Anand Rathi – Mumbai

Fine okay. And in terms of the growth at 12% was slightly lower when we say 20% for FY 2015 which areas are we targeting sir?

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

We are targeting as usual the retail portfolio mainly also SME where we have to grow, we have to show some better growth rates in SME, retail, housing sector and all these areas and even gold loans also we want to make a headway and show a better growth rate this year and here and there some mid corporate advances to a level of say 20 – 25 Crores level where industries we want to finance some industries going forward we look for a better economic scenario this year and with that and with the interest rates conducive definitely we can show a better growth rate.

Kaitav Shah – Anand Rathi – Mumbai

Okay sir what would be the outstanding gold loan portfolio?

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

We have 2674 Crores forming about 8.91% of our total advances, last year it was Rs.2180 Crores so there was a growth rate of around 17% in gold loan.

Kaitav Shah – Anand Rathi – Mumbai

Okay sir in terms of the tax write-back what has this been cost primarily on account of?

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

Tax write-back the main reasons are one is we have gone for technical write-off of the accounts and in this particular quarter we went to an extent of around 97 Crores technical write-off, establishment expenses also increased considerably and if you closely look at fourth quarter results as per the guidance of the 4th quarter we have provided for employee cost an additional amount of around 76.02 Crores and also that have an

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effect on the tax write-back. These are mainly the two reasons for tax write-back and it is to the extent of 30.45 Crores.

Kaitav Shah – Anand Rathi – Mumbai

Okay so in terms of the assumptions for the superannuation what has exactly changed sir?

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

Yes the two things that have changed one is salary escalation rate, we have taken earlier at 4% we have increased to 5%.

Kaitav Shah – Anand Rathi – Mumbai

Okay and in terms of the movement of NPAs can we have the slippages for the quarter and the recovery upgradation etc.?

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

For the quarter the slippages were 84.87 Crores and the recovery was including write-off 245.74 Crores including write-off.

Kaitav Shah – Anand Rathi – Mumbai

What would be the upgradation cash recovery if you would have the number has there is any sale to ARCIL?

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

No we have not sold assets to ARCIL this year and in this first half second quarter we want to enter into some deals with the ARCIL and we will sell some assets but in the last quarter and the third quarter or for the whole year we have not gone for assets sale. For the last quarter the recovery was to the extent of say 103.83 Crores by way of regularization then recovery in the existing NPA accounts and closed accounts and write-off was 141.91 Crores. So addition 84.86 the opening balance is 996.81 Crores, addition is 84.86 Crores, recovery 103.83 plus 141.91 so closing balance was 835.93 Crores. For the full year you want?

Kaitav Shah – Anand Rathi – Mumbai

For the full year, I have. No issue. It is there in the presentation. One last question is what would the treasury income in fourth quarter?

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

Treasury income for the fourth quarter I will get within five minutes.

Kaitav Shah – Anand Rathi – Mumbai

Sir for just to understand NIM I know fourth quarter is sort of seasonally we normally report lower NIMs but what happened in the fourth quarter that our NIMs are seasonally lower?

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

Because see what has happened is there were some reversal of interest in certain funded interest term loan accounts and this has resulted in reversal of some of the income and that resulted in our net interest income coming down to the extent of around 47 Crores we have reversed in the funded interest term loan and we have reversed some income interest account to a separate liability account thereby to that extent the interest has come down which has resulted in reduction in the net interest income as well as net interest margin.

Kaitav Shah – Anand Rathi – Mumbai

Because what we would expect now about is the exchange there is an improvement in asset quality this number would have slightly gone up the NIM that was what their expectation would have been?

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

Also we concentrated because our liquidity was good we concentrated on low yielding advances also in the last quarter we went for AAA rated accounts and all that with that the yield has come down.

Kaitav Shah – Anand Rathi – Mumbai

So these would be short-term AAA rated or longer-term?

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

With the provision of interest resets clause.

Kaitav Shah – Anand Rathi – Mumbai

That is it from me. Thank you.

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

The treasury income breakup for the last quarter was that total other income was 113.98 Crores and trading profit was 8.79 Crores this is the income in the last quarter.

Kaitav Shah – Anand Rathi – Mumbai

Thank you Sir.

Palak – Moderator

Thank you very much Mr. Shah. Now the next question comes from Mr. Nilesh from Mumbai. Mr. Nilesh you may please ask your question now.

Nilesh – Edelweiss – Mumbai

This is Nilesh from Edelweiss. Sir just on the margins actually I just wanted to understand this you spoke about this funded interest term loan the FITL component now this is largely on the restructured accounts and

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was it specifically for the quarter or you have taken it you have reversed some of these funded interest term loan of the earlier quarters also?

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

No this is earlier quarters entire portfolio of the bank.

Nilesh – Edelweiss – Mumbai

Entire portfolio the adjustment has been done in this quarter?

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

The total amount was to the extent of around 47 Crores and that was earlier taken to income account. As per the clarification from Reserve Bank recently that it has to be reversed and kept in a separate account that is why it was reversed and in NPA restructured accounts from the interest term loans we had already reversed. Only in the case of standard restructured advance that it has been reversed and that is why the NIM has come down slightly.

Nilesh – Edelweiss – Mumbai

Right so this is the onetime impact right so next quarter it goes back to our normal levels?

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

Normal levels in fact year-on-year the NIM has improved. Year-on-year it has gone up from 2.31 to 2.40.

Nilesh – Edelweiss – Mumbai

Okay and sir the other question was on the tax the notes to accounts mention something about setting creating a MAT credit of about 130 odd Crores if you can just explain what led to that and was the impact taken in the fourth quarter itself?

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

Yes my colleague from treasury will explain.

Company Speaker – Karnataka Bank Limited

In fact as per the Income Tax Act is concerned Private Sector Banks Government Instruction of 150 J (B) wherein we have to pay minimum tax on the booked profit given around 18.5% of the book profit we have to pay the tax and this tax whatever is there if our current tax liability is lower than minimum MAT has to be take that whereas this MAT credit entitlement is available. So that is the thing we have mentioned in our report so about 135 Crores was our MAT credit entitlement for the year even though we are paying it to the government income tax department next year this will be available for setout so that is the reason we have mentioned in the note.

Nilesh – Edelweiss – Mumbai

But there is no P&L impact because of this?

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Karnataka Bank Limited**Company Speaker – Karnataka Bank Limited**

No it does not have any impact on profit and loss account.

Nilesh – Edelweiss – Mumbai

Okay it is fair to assume that your tax profits were lower than 140 days to pay the tax profits were lower and that is why the MAT applicability is come down?

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

Yes.

Nilesh – Edelweiss – Mumbai

So no P&L impact right sir sorry to kind of get the clarification. Sir the 30 Crores of negative this time is largely a function of what sir?

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

Yes, as I said three components one is the technical written off accounts. It is about 94 Crores for the quarter then we got hit in the employee cost. So an increase to that extent and it was also there FITL reversal.

Nilesh – Edelweiss – Mumbai

Okay so that brought down see basically from that, but when I look at the overall tax for the year effectively that should take into account only is expenses that you mentioned?

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

Yes overall tax for that year is 97.62 Crores as against 116.10 Crores for the previous year. So we are taken into account all these factors.

Nilesh – Edelweiss – Mumbai

Okay and sir this the staff expenses also now had there is a onetime impact, which you have mentioned in the notes to accounts but from your own I think now it goes back to a normal level of increase?

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

To remove that 76.02 Crores and it would be almost normal, normal increase is there and we have provided for the wage revision every quarter we have been providing that to staff once the wage settlement takes place then the revised wage will be effective.

Nilesh – Edelweiss – Mumbai

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Okay and sir what is the guidance on sorry I might probably entered a bit late in the call but what is the guidance for margin line asset quality next year sir?

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

Guidance for asset quality is already told the net NPA will be at a level of 1.5% and gross NPA at a level of 2.4% this is the guidance and margin will be somewhere near 2.8% to 2.9%.

Nilesh – Edelweiss – Mumbai

This improvement largely on margins you believe will be a function of improving CD ratio?

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

I have just told it is increasing the CD ratio to a level of 72% to 73%, increase in the CASA to a level of say around now we are at 25% plus and to a level of 27% plus then also the increase in the portfolio the change in the portfolio and advances to a higher level interest yielding advances and mostly retail so that we can improve the yield on advances.

Nilesh – Edelweiss – Mumbai

Sir thank you very much I will come back if I have more.

Palak – Moderator

Thank you very much Mr. Nilesh. I request participants who wish to ask question may please press “*” “1”. At this moment there are no further questions from participants. I now hand over the floor to you. Over to you sir!

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

Thank you. Thanks for the interest shown on our results. As I told you those who have joined late, we have given the analysis on our website. You can go through that. We also given a press release and also it will be published in tomorrow's news. I think we will give a better result in the next financial year and our guidance is to have a turnover level of 83000 Crores and going forward for the next year 100000 Crores of business and the growth level as I said 20% growth in turnover around 20% growth in deposits and around 23% growth in advances and definitely Karnataka Bank will assure all our analysts, shareholders, investors that we will stand up to this guidance level definitely. Thank you very much.

Palak – Moderator

Ladies and gentlemen, this concludes the conference call. You may all disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.