



“Karnataka Bank’s Q4 FY ’20 Earnings Conference Call”

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MANAGEMENT: **MR. MAHABALESHWARA M.S. – MD AND CEO,**
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MODERATOR: **MR. AALOK SHAH – MONARCH NETWORK CAPITAL**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Karnataka Bank’s Q4 FY ’20 Earnings Conference Call. 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aalok Shah from Monarch Network. Thank you and over to you, Sir.

Aalok Shah: Thanks, Janice. Good Evening to all. On behalf of Monarch Network, we welcome you all for Karnataka Bank’s Q4 FY ’20 and the full year FY ’20 Results. To discuss with us about the results and the future outlook, we have the entire management team of Karnataka Bank starting first with Mr. Mahabaleshwara M.S. – MD and CEO; Mr. Y. V. Balachandra – COO; Mr. Muralidhar Krishna Rao – CFO; Mr. Gokuldas Pai – CBO; and other senior management team. Without taking much of their time, I would hand over the call to the MD Sir for his opening comments, post which we could start the session for Q&A. Thank you and over to you, Sir.

Mahabaleshwara M.S.: Good Evening and Welcome to all of you. Before starting management commentary on Q4 FY ’20 earnings, I sincerely hope that all of you are hale and healthy despite COVID-19 pandemic related

health concerns which we are feeling across India and also across globe. Nevertheless, this is the time wherein all of us must take care of ourselves, look after the family, and of course our dearest and nearest, as you all know that we are all passing through this world only once. Friends, yesterday, I had sent a detailed E-mail communication to all the registered E-mail IDs of our shareholders, not only highlighting the current year performance but also for the last one decade. Many of you as shareholders, I believe have gone through the same. I am getting good response from shareholders as they were able to know all the important facts about the bank at one go. All along we had a tradition of having analyst and investors conference call for quarterly results and analyst and investor's conference for annual result at Mumbai. This is being practiced since the last five years, of course, this was started by my predecessor, Mr. Jayarama Bhat.

In fact for the year 2014-15, our results Board meeting was on May 22, 2015, and we had analyst meet at Mumbai on May 25th. Similarly for the second year, that is, 2015-16, our results Board meeting was on May 20th and our analyst meet at Mumbai was held on May 24th and 2016-17, the Board meeting was on May 13th and we had our analyst meet at Mumbai on May 15th and for the year 2017-18, results Board meeting was on May 15th and we were happy to have the analyst meet on the very next day, i.e., on May 16th. Last year, i.e., 2018-19, the results Board meeting was on May 13th and we had the analyst meet at Mumbai on May 15th. However, during current year because of the special situation caused by COVID-19, today we are having a conference call instead of the traditional analyst meet at Mumbai. Nevertheless, dissemination of the information and having a close interaction with you all is most important for me and I am sure it will serve the purpose.

Further, you might have observed that all along we were declaring our annual results during second or third week of May itself. This year even though we had planned like that, on account of COVID-19 pandemic, the statutory auditors had lot of logistic problems especially in Mumbai and in spite of that, we could declare the result during first week of June itself even though as you all know SEBI had extended the due date up to June 30, 2020. Fag end of Q4 FY '20 and the first two months of the current Financial Year 2020-21 has all the indications that entire economic sector and more so the banking sector is entering into an era of uncertainties, hence it makes sense to be cautious as well as conservative to protect the bottom lines. For us in Karnataka Bank, "conserve and consolidate" is our guiding principle for the current financial year because it is now almost certain that year 2020-21 will not be a normal year. Hence keeping this in mind today morning, while interacting with CNBC TV-18, I had just recollected the old adage saying that, "top line is vanity and bottom line is sanity." I am sure all of you will ponder over this particular adage.

Friends, as far as Q4 earnings are concerned, detailed analysis is already uploaded on our website and let me now briefly touch upon the same. You might have seen a 20.76% growth in the operating profit during the Q4 of FY '20 that means the operating profit went up from ₹324.23 crores to ₹391.54 crores. Similarly, on year-on-year basis, there is a growth of 14.27%. Interest income went up by 7.05% and NII growth all along which used to be in the single digit has now crossed the double digit, it is now at 10.07%. Other income, we had a robust growth of 51.54%, which was supported by a solid trading profit of ₹155.74 crores vis-a-vis ₹43.20 crores. Nevertheless, in the fee based income, a moderate quarterly growth of 15.05% and an annual growth of 18.72% is recorded. Thus the total income had a growth of 14.14% whereas total expenditure grew at 12.71%. In the operating expenses, the establishment expenses i.e., salary has grown at a rate of 16.44%, of course, this is after making full provision for the salary as per the IBA wage revision, so there was 15% additional offer and we have provided fully, but the superannuation benefit went up by 6.5 times, superannuation benefits for the pensioners as well as the gratuity and leave encashment and all such things. So, last year it was just ₹25.46 crores and this year it is ₹163.19 crores and you all know that this is market yield driven provision that we need to make. However, other expenses last year were at ₹243.79 crores and during this year it has come down to ₹207.69 crores and we have been able to not only contain other expenses, rather we have also been able to reduce it by about 14.81%, which we had been planning and we could achieve it during the last quarter of the financial year.

NIM has almost remained at the same 2.87% last quarter, current year 2.86%, ROA has taken a beat from 0.33 to 0.13 but for the year ended it is at 0.53%. ROE for the year ended is 7.35%, for the last quarter it was 1.81%. There has been some good traction as far as gross NPA is concerned. GNPA now stands at ₹2799.93 crore. Last quarter i.e., December 2019, it was at 4.99%, now it has improved to 4.82%, but last March 2019, it was at 4.41%. Similarly, the net NPA, during December 2019, it was at 3.75%, now it has improved to 3.08% whereas last year, i.e., March 2019 it was at 2.95%. NPA gross slippage is at ₹304 crores versus ₹402 crores, whereas the reduction and upgradation recovery all put together is ₹281.60 crores versus ₹292.09 crores, so as a result the slippage ratio now stands at 0.57% for the current quarter vis-a-vis 0.80%, but for the full year it was at 3.75%. The NPA provision during the current year, has gone up substantially on account of good operating profit. We thought that this is the right time to provide adequately so as to improve the PCR also and keeping that in mind, we have proactively made certain provisions. That is the reason why this has shown a 31.39% increase i.e., from ₹216.74 crores last year to ₹284.78 crores this year. As a result, credit cost during the current quarter has slightly gone up from 0.40% to 0.50%, but however for the full year it stood at 1.95%.

Provision coverage ratio was one thing, since last two years we have been focusing on. So our provision coverage ratio which was at 58.45% as of March 2019 has now significantly gone up to 64.70% as of March 2020. Cost-to-income ratio, there is an increase from 57.97% to 59.62% of course mainly on account of provision made towards superannuation related benefits. The capital adequacy ratio is now at 12.66%, it was at 13.17% about a year ago. SMA2 there is some positive traction, it was at ₹168.41 crores about a year back which is now in double digits at ₹23.65 crores and recovery under written-off accounts has also shown some positive traction. Last quarter, we had a recovery of ₹16.60 crores from written-off accounts, this year it is at ₹59.61 crores. For the full year, it is ₹95.82 crores versus last year's ₹51.18 crores. Business Turnover has grown at a rate of 4.44% only and our present business turnover stands at ₹1,28,749 crores. Deposits grew at 4.87% whereas the advances growth is muted at 3.90%. Here, I have to submit that all along we have been highlighting that we would focus more on the retail and mid-corporate and not that much on the corporates. Our retail advances which was at 42.85% as of March 2019 has gone up to 45.49% as of March 2020 and mid corporate advances (i.e., ₹5 crores to ₹100 crores) which was at 26.85% has now gone up to 28.71%. Similarly, the corporate advances (i.e., more than ₹100 crores) which was at 30.30% has now declined to 25.80%. So this being the case during the current year, on account of this position, we could register a comfortable 10.64% year-on-year growth in the retail sector and 11.44% growth in the mid-corporate sector, and degrowth of around 11.26% in the corporate sector. So when you look at the credit growth from this angle, then the fundamental changes and the realignment whatever that we have made, that would be crystal clear for all of us, which is reflected in improved yield on advances from 9.33% to 9.47%.

Similarly, our CD ratio is now at 79.35%, last year it was at 80.10% and the CASA, the overall percentage it is now at 28.91% versus 28.06% about a year back. There is some positive traction as far as the yield on advances, which was at 9.26% about a year back, now has slightly improved to 9.41%, cost of deposit which was at 5.97% about a year back further declined to 5.88%. As a result, interest spread which was at 3.29% has slightly improved to 3.54% during this Q4 of FY '20. Our restructured advances have also come down from ₹872.16 crores about a year back to ₹536.49 crores. Now, the most important thing that all of you would be interested in knowing is the moratorium book. In this, about 34.67% of our customers by number have opted for the moratorium and by value, i.e., by amount, it amounts to 46.62%. So another 54%, i.e., majority of the customers by value have not opted for the moratorium, even though Bank had extended moratorium facility as per Reserve Bank of India guidelines to all the eligible customers. Our transformation initiative KBL Vikaas, is progressing well as per our expectation. Digital journey for MSME

loans especially working capital sanctions is launched very recently and our MSME term loans digital journey is in the final stage, which is being taken care by our Digital Centre of Excellence, Bengaluru. Other digital journeys like home loans, car loans, and personal loans are stabilized and now we have a very clear-cut roadmap of almost 100% coverage for new sanctions under these sectors. Similarly, we have already tested SB account Tab Banking on a pilot basis, and we are going to roll out all India very shortly. Performance Management System and Lead Management System are now stabilized. As we have already received the final permission for the subsidiary i.e., Karnataka Bank's wholly-owned non-financial subsidiary, we have named it as KBL Services Limited, will be launched very shortly.

As far as the outlook for the current financial year is concerned, we are seeing limited growth opportunities because of the situation currently prevailing. So you might have noticed that as I said, every sector barring few areas, uncertainty is there and we may have to adopt wait and watch strategy, but for extending the relief measures as well as focusing on the MSME relief package. Hence, I feel that this is too early to make any comments on the growth prospects. This aspect was also discussed in detail in our recently held Board meeting. We will be keenly watching the developments and accordingly we will be revising our strategies. Nevertheless, we will be focusing more on retail and mid corporates and CASA, trading profit, as well as recovery & NPA management and third-party products. Digital sanctions, yes, we will be taking it forward and we propose to cover the majority of retail portfolio under the digital journey. We are now focusing on overall efficiency enhancement and some improvement in our cost control measures, and as I said, this is the year wherein we all have to focus more on conserving the capital and also curtailing the costs. This has engaged the attention of not only the top management but also at the Board level. We will be focusing more on these aspects. With this background I said that we will be focusing more on the bottom line, so as to "conserve, consolidate, and emerge stronger"- that is the business *mantra* for your Karnataka Bank for the current year. This is all what I wanted to share with you and now we will try our level best to address any questions from your side.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Rajesh Agarwal from CD Equisearch. Please go ahead.

Rajesh Agarwal: Sir, my first question is on the provision side, so this ₹1135 crores of provision, where is this going?

Mahabaleshwara M.S.: The total provisions made during the year is ₹1225 crores, out of which, provision towards NPA is ₹1108.22 crores, provision towards standard advances is ₹35.17 crores, provision towards taxes is ₹90.25

crores and other provisions is around ₹5.84 crores. There are also write-backs to the tune of ₹14.48 crore i.e., under depreciation on investments-₹1.95 crores, security receipts-₹3.04 crores and NPV on restructured advances ₹9.49 crores.

Rajesh Agarwal: Okay, but Sir if we see the difference between gross and net NPA between FY '20 and '19, the difference has just jumped by ₹205 crores, I do not understand where this ₹1108 crores which you said for NPA where does that go in because it is not reflecting in the NPA figure? Where is this reflected in the financial statements, this ₹943 and ₹1108?

Mahabaleshwara M.S.: The movement of gross NPA, net NPA, technical write off and provisions are explained in schedule 18 of the Balance Sheet, which will clarify your doubts. However, for your reference let me brief you on this.

Under Gross NPAs (GNPAs), the opening balance was ₹2456.38 crores and during the year, additions to GNPA were ₹1998.58 crores, reductions were ₹1655.03 crore (which include upgradations-₹241.32 crores, recoveries-₹322.87 crores, technical write offs-₹943.65 crores and other write offs-₹147.19 crores), thus giving a closing balance of ₹2799.93 crores. Similarly, under Net NPAs (NNPAs), the opening balance was ₹1616.71 crores and during the year additions to NNPAs were ₹1022.45 crore and reductions were ₹884.15 crore, thus giving a closing balance of ₹1755.01 crore.

Further, the technical/prudential written off accounts at the beginning of the year were at ₹1434.27 crore and the write offs during the year were ₹943.65 crore. The recoveries under previously written off accounts were ₹205.58 and thus the closing balance of such accounts was ₹2172.34 crore. As far as movement of provisions for NPAs, there was an opening balance of ₹810.55 crores and another ₹1297.59 crores was provided during the year and there was write-off and write-back of excess provision to the tune of ₹1090.83 crores, Thus, the closing balance of provisions is ₹1017.31 crores.

Rajesh Agarwal: Okay, so you are saying that provision for NPA this year has been created ₹1200 crores?

Muralidhar Krishna Rao: Yes, ₹1297 crores is the provision made during the year.

Rajesh Agarwal: Have there been any deductions because this figure has jumped from ₹2456 to ₹2800 crores?

Muralidhar Krishna Rao: Yes, opening balance was ₹810 crores, provision made during the year ₹1297 crores, provision utilized for write-off is ₹1091 crores, closing balance is ₹1017 crores.

- Rajesh Agarwal:** Sir, but net and gross figures, they do not match with the closing balance which you gave me?
- Muralidhar Krishna Rao:** Out of the ₹1297 crores, ₹189 crores is debited to the reserves and balance is debited to the profit and loss account.
- Rajesh Agarwal:** Sir, how much principal repayment is due this year, FY '21?
- Mahabaleshwara M.S.:** The current year's due maybe in the range of around on an average the repayment is in the range of around ₹6000 to ₹7000 crores, I do not have the correct figure but going by the past track record, it is in the range of around ₹500 crores per month, so for the full year it could be in the range of around ₹6000 to ₹7000 crores.
- Rajesh Agarwal:** Sir, why is the moratorium so high because we checked for SBI it is 21% and overall RBI releases the press release, they said overall 39% of assets are under moratorium, so why are our moratorium rates near 47%-48%?
- Mahabaleshwara M.S.:** I do not think it is on the higher side, there are so many banks which are still in the process of extending the moratorium, there is some good banks who are even at 71%, 60% and all. As I said, we have extended this benefit to all, and of that around 46% have opted for the moratorium as of now. This number may still go up as the pandemic advances. We have time up to August 31st that time is there, so as of now this is the position.
- Rajesh Agarwal:** So you are saying Sir what levels do you think it can go up to, 60%-70%?
- Mahabaleshwara M.S.:** That we are not able to tell, because it is our responsibility to extend the benefit to all the eligible borrowers and that is the spirit of RBI circular. So keeping that in mind we have extended it, but in some of the cases, hardly there is moratorium availed, say for example, if you look at our NBFC book, only about 10% by value and about less than 5% by number had availed the moratorium so far. So from each sector it varies. We are keeping a very close watch on that. In fact, agriculture sector as of May 31st only 19.34% of the customers by number and by value around 39.98% had availed moratorium. So under each sector it is varying, so we are keeping a close watch on that.
- Moderator:** Thank you. We take the next question from the line of Amit Rane from B&K Securities. Please go ahead.
- Amit Rane:** Sir, what is our SMA2 number and risk weighted average number in amount?

Mahabaleshwara M.S.: SMA2 is ₹23.65 crores as of March 2020 and for the year ended March 2019, it was at ₹168.41 crores, and total risk weighted assets is ₹52,708 crores.

Amit Rane: Sir, any reason for such improvement in the SMA2 number on a YOY basis?

Mahabaleshwara M.S.: Because of the good recovery and also close follow-up and as I said we have shed certain corporate advances and as a result now whatever the book that we have is showing some good quality. In our results analysis also, which is placed in our website, we have disclosed the status of all the externally rated borrowers. There you could see the accounts in SMA2.

Amit Rane: Sir, this rating that you have disclosed, as on what date?

Mahabaleshwara M.S.: That is the latest available rating.

Amit Rane: As in March end?

Mahabaleshwara M.S.: Not necessarily be March end, because it is an ongoing exercise. If they had been updated today, we will take that, that is the latest available rate. In this externally rated advances, there is one account under SMA2 with an exposure of ₹10 crores.

Amit Rane: My question is have we done any internal analysis of the moratorium book of this 47% by value, any accounts which are identified as highly risky, which are more likely to slip in to NPA?

Mahabaleshwara M.S.: That type of analysis we have just started. We are now interacting with the respective customers and are fully involved and engaged in extending the Government sponsored relief packages especially to the MSME accounts. That is the priority for the banking sector. So, once the economy revives through the MSME and then of course we will be able to gauge the impact of the moratorium. The main intention is to revive the economy. But nevertheless as I said short-term or the long-term impact on the bottom line have to be very keenly watched.

Moderator: Thank you. We take the next question from the line of Lalit Garg from Global Services. Please go ahead.

Lalit Garg: Sir, my question is about the additional capital that we were planning to raise and looking at the current market condition about share price and also the growth in the top line are we going to defer this capital raising for sometime or what is the plan?

Mahabaleshwara M.S.: For the time being, there is no question of deferring or shelving the said special resolution which we had from the shareholders in the

month of March 2020, which is valid for one year. During this period, once we are convinced about the right price, at that time we may go ahead. Secondly, as I said the CAR is presently at 12.66% as against the RBI stipulated minimum of 10.875%. Internally we have a policy of having at least 1% over and above the regulator's stipulation. So for the time being, there is no dearth for capital. But nevertheless going forward, we will be taking a decision on this issue at appropriate time.

Lalit Garg:

Thank you Sir, as a shareholder I would really prefer if this is deferred for some time, but of course the Board has the call. My second question is more on the academic line, I wanted to understand we have debited ₹189 crores to the reserves for this fraud cases instead of taking it directly to the P&L, my question was if this amount was taken as a technical write-off, we would have got less deferred tax asset, is that the right way to see it?

Muralidhar Krishna Rao: No, what happens here is that the provision made for the NPAs(₹1297.59 crore) is recognized as Deferred Tax Asset by credit to P & L account and to the extent of provision made by debit to Revenue Reserve a/c (₹189.37 crore) is recognized as Deferred Tax Liability by Debit to P&L A/c. Thus, the net tax benefit during the FY 2019-20 will be only on the provision created by debit to P&L A/c.

However, when the amount debited to Reserve A/c (₹189.37 crore) gets reversed by debit to P&L A/c during FY 2020-21, the Deferred Tax Liability (i.e., created during 2019-20) will also get reversed by credit to P&L A/c.

Mahabaleshwara M.S.: There is another angle also. You see that during the current year just for academic interest only I am highlighting this, superannuation benefit for the full year we had ₹211 crores, whereas last year it was just ₹3.61 crores. Had there been no such impact, what would have been our profit? In one area we may get some benefit and in another area it may balance out, so eventually our intention is to keep on strengthening the balance sheet. That is the main motto of the Bank. You look at the COVID-19 provision also, even though there was a regulatory provision to absorb 5% and amortize another 5% for the next quarter i.e., the June quarter, we have absorbed the entire 10% upfront.

Moderator:

Thank you. We take the next question from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla:

Sir, I was just referring to the results, in the result section on the notes under accounts, statement number six it says under other matters, we have not audited the balance sheet of approximately 58% of advances and 78% of deposits, so can we say these results are not audited or I am missing something else, can you share your thoughts on that?

Mahabaleshwara M.S.: In our bank, all the offices, branches as well as all back offices, 100% of them are audited. We have two central auditors and we have also designated branch auditors. So together they have done 100% of the audit. Audit not done by the Central auditors is also disclosed, but the balance is covered by Branch Auditors. 100% of the books are audited. That is why it got delayed, otherwise we would have come out with the results somewhere in the second week of May itself. Because of the logistic problems on account of lock-down, our auditors had some inconveniences. Nevertheless, it has not prolonged up to the June end and at the earliest situation we had declared the results.

Bunty Chawla: Sir, sorry if I am repeating, if you can share the total fraud accounts which we have declared four fraud accounts amount outstanding as well as the provision against that and as well as if possible if you can name all these four accounts?

Mahabaleshwara M.S.: Yes, these are all consortium arrangements and we are not the sole banker. In Dewan Housing our exposure is ₹180.13 crores, Religare Finvest it is ₹43.44 crores and LEEL Electricals we have an exposure of ₹20.65 crores. These are the three accounts and in another account, i.e., Fedders Electrical and Engineering Limited ₹41.30 crores but there we had full provision. All these four accounts were NPAs and we were consortium members with minority share of less than 1%. Since either the consortium leader or many other banks in the consortium forum based on either the forensic audit report or any other operational issues, they had treated it as Fraud because they observed that, there is diversion of fund. By following the spirit of the consortium, we also took a proactive stand to fall in line with the consortium decision and once we declare it as fraud, the next logical thing is the provision, so we have taken up that process.

Bunty Chawla: How much total as a percentage provisioning has been done against these accounts?

Mahabaleshwara M.S.: Around 25% that is already done, remaining 75% is charged to the reserve. Thus, fully provided but by charging to the reserve which has to be reversed subsequently on quarterly basis in the remaining three quarters. So it may come to around ₹60 crores per quarter for the next three quarters. These accounts they have been with us since last 2009, 2014 like that, so it is very unfortunate that in spite of consortium arrangement, it happened.

Moderator: Thank you. We take the next question from the line of Parthiv from NBS. Please go ahead.

Parthiv: Sir, I just wanted to continue on the previous participant's question on the auditors matter, can you just elaborate it because you said apparently that all the branches have been audited, but in the note it is

still being mentioned that 824 branches with 53% of the advances, so why the note has been inserted in the financial statement by your bank and such kind of things are not visible, we cannot find across any other banks just wanted to have an elaborate understanding on the matter?

Mahabaleshwara M.S.: In some of the banks there is a practice where statutory Central auditors themselves will be conducting the audit of not only the head office, but also the entire branch set up, therefore invariably they will be the only auditors. In our case, there is no exemption from audit for any of the offices. We have two systems, one is Central statutory auditor another is the branch auditor. Where statutory Central auditors are unable to take up the audit of any office or the branches, we will allocate such branches/offices to the qualified chartered accountant. Therefore in their report SCAs have to mention how many branches they have audited and what is the percentage coverage of branches audited by the other Branch Auditors.

Parthiv: So this matter is by the statutory auditor and not the branch auditor I believe, right?

Mahabaleshwara M.S.: Yes, all other branches are audited by the branch auditors.

Parthiv: But you want to say that all the branches are being audited by the branch auditors thoroughly?

Mahabaleshwara M.S.: Yes, there the procedure is, even the branch auditors are also appointed with the prior consent of RBI. Further, whatever the audit observations that these branch auditors have made by means of MOC (Memorandum of Changes), these are reconciled by the SCAs and certified accordingly. Going forward, of course we are now discussing about the centralized audit process, so for that now we are in the process of implementing Document Management System (DMS). Most probably during current year or from next year onwards, we should be able to have that centralized auditing system.

Parthiv: Sir, my next question is pertaining to the 12 number in the notes to the account, I know quite a few participants have already asked you the same question regarding the fraud which you have the ₹ 190 odd crore, which you would reverse so this is it or you expect any further addition to the provision apart from these going forward, I would say any other jerks or any other addition to these kind of cases?

Mahabaleshwara M.S.: As of now, whatever that we had come across it is already considered and disclosed as fraud.

Parthiv: This ₹189 crores would cover for the entire ₹252 crores, like everything will be done?

Mahabaleshwara M.S.: Correct.

- Parthiv:** So there is nothing, at the moment, you are viewing in the near future?
- Mahabaleshwara M.S.:** We cannot just hold it like that.
- Parthiv:** My main question was do you expect anything to be added new to this kind of one-offs basically, something like a new fraud coming in, like any kind of a jerk I would say?
- Mahabaleshwara M.S.:** As of now, we have not come across with any such early warning signals.
- Moderator:** Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.
- Jai Mundhra:** Sir, first if you can highlight that we have given moratorium to NBFC, some of them are 'AA' rated and one is 'A' rated, if you can provide the sector of these NBFCs which have taken moratorium?
- Mahabaleshwara M.S.:** Sector wise we have not furnished, external rating wise I have mentioned there. You want it sector wise?
- Jai Mundhra:** No, I only want the NBFC which have taken moratorium, which sector are they from?
- Mahabaleshwara M.S.:** The major portion is from housing finance and others is commercial finance.
- Jai Mundhra:** Sir, on Slide 20 of the presentation, if I look at the bottom last three row, B, C, and D, in D category you have ₹1400 crores of exposure of which let us say half of them or 60% of them have turned NPA, what is your view on the residual ₹500-600 crores and same in the B category ₹900 crores, so do you think they will, they are very, very weak and in your internal assessment also?
- Mahabaleshwara M.S.:** There you might have noticed that 18 accounts have already turned to NPA and it is ₹872 crores and another nine borrowers they have taken the moratorium, that is amounting to ₹537 crores, so the rest of the accounts even including the moratorium availed accounts, they are not even coming under SMA2 that is also disclosed there. In these accounts, one is in infrastructure sector, second one is in trading, third one is an educational institute and another is in energy generation and so on. They have been with us for quite a long period, even though their external rating is 'D', our internal rating is may be KB3 and KB4. So from rating point of view, yes, external rating is not satisfactory, but these are generally high yielding advances and track record has also been satisfactory and they have also not reported any given point of time either to the CRILC etc., so we are fully satisfied with the performance and conduct of these accounts.

Jai Mundhra: Sir, where is the coffee plantation exposure now, is that NPA or this is not NPA?

Mahabaleshwara M.S.: Which coffee plantation?

Jai Mundhra: Sir, I think we had an exposure to CDG.

Mahabaleshwara M.S.: That is Coffee Day Global, we had total sanctioned limit of ₹183 crores and that was brought down to ₹153 crores, and now it is further brought down to ₹130 crores and it is performing and up-to-date interest is serviced and for that, we have a security of around ₹155 crores.

Jai Mundhra: As of now, have they taken moratorium and hence they are standard?

Mahabaleshwara M.S.: They have not taken moratorium. Account is standard.

Jai Mundhra: Sir, another question is if you can highlight that some of the banks have also declared SMA0, plus 1, plus 2 accounts as of Feb end, I think we declared SMA2 but it also becomes imperative for let us say coming quarters because we have moratorium, so I think the number to track is the SMA0, plus 1, plus 2 number as of Feb end or March end?

Mahabaleshwara M.S.: For improvement of the portfolio we are keenly tracking these numbers internally.

Jai Mundhra: Sir, now apart from this 10% provisioning that we have done, we have not provided anything on contingent basis?

Mahabaleshwara M.S.: Contingent basis no, not yet. Whatever that RBI stipulation of 10%, which was of course for the current quarter, the provision requirement was 5%, we made full 10%.

Moderator: Thank you. The next question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Sir, my first question was regarding our asset quality, actually my question was very related to the last participant, I had calculated your external rating exposure actually below BB book that came around ₹1392 crores actually, B, C, and D category external rating and you have said that you are fairly comfortable on that book actually, so that is just sort?

Mahabaleshwara M.S.: Very comfortable, because, they are dealing with us for quite a long time and we have not taken any fresh exposure either under the D, C, B and BB. But here what happens, if the existing high rated accounts are downgraded, then only they get reflected there. Otherwise, on our own, we are not taking any fresh exposures under these categories.

Sanjay Shah: On that note Sir, my another question was regarding to our employee cost, as you said that we had a one-off with regard to superannuation benefit that we had declared in this quarter and that is why our employee cost goes to ₹370 crores as compared to ₹203 crores a year ago, so is this kind of a, this will be the new normal cost for Karnataka Bank going ahead or is it a one-off in this actually?

Muralidhar Krishna Rao: Normally, according to the AS-15 and also as per the guidelines issued by the IBA in this regard, the pension funding will depend upon the yield as on the reporting date and on the retirement age of the employees. So, normally if the yield falls, then the provision will increase for the employees so also pension funding. It has become a very volatile nowadays. If the yield goes up, there will be reversal from this provision.

Sanjay Shah: Sir, as in this quarter the employee cost will be the same as ...?

Muralidhar Krishna Rao: For the June quarter compared to today's yield versus the March yield, it is almost at the same level, so June there may not be any big hit.

Sanjay Shah: So the frequency will be the same?

Muralidhar Krishna Rao: Yes, every quarter we will obtain the actuarial report. Based on that the provisioning will be made. But we do not feel that any big hit will be there in the first quarter, we do not know about the future as the same dependent on the yield movement.

Sanjay Shah: My second question Sir was regarding to our return ratios as our MD Sir said in the last quarter's con call that, our focus would be on advancing to the especially the MSME side or at least for the high yielding advances for that our, at least the yield on advances goes up and our NII comes in double digit and as is rightly reflected in this quarter, so going ahead do we expect at least our ROE and our ROA to at least get better as compared to the FY '20 levels, because currently they are at very, very low levels as compared so that we get it and gain on the valuation front as well?

Mahabaleshwara M.S.: Yes, this should be too early for us to comment on that. I am sure you will fully agree with me that we are in an era of uncertainty, so our first focus is to safeguard or protect the bottom line and also have some decent growth when we come out with the first quarter numbers.

Sanjay Shah: Yes, so my question was that only Sir that at least not in FY '21, but going ahead can we expect some decent improvement in our returns ratio?

Mahabaleshwara M.S.: That will be our endeavour. But one thing as I have briefly mentioned in my opening remarks, we are taking lot many cost-cutting measures, both under capital and revenue, which has already reflected during the fourth quarter itself, whereas under other expenses, there is a degrowth to an extent of 14.81%. We will try to repeat that during the ensuing quarters and wherever is possible we will definitely curtail and only inevitable expenses we will incur.

Moderator: Thank you. We take the next question from the line of Yashwant, Individual Investor. Please go ahead.

Yashwant: Sir, I have seen that right in the opening remarks you have mentioned that over a period of time, now Karnataka Bank has been announcing Q4 results in the month of mid-May, so as an investor community and I have researched why investors do not have trust in investing in Karnataka Bank, so one of the reason which I felt was Q4 results have been deferred for multiple reasons which you have mentioned, so my question as a Management considering the crisis that we are going through, I am pretty sure that in the month of June, we could have foreseen that okay we will not be able to publish the results by mid of May, so my question is why has that not been communicated to the exchange and the investors, I will say the reason also this has created the air for the speculators to speculate that Karnataka Bank has so many things, internal problems which is why it is not being able to publish the results, so my only question is when you can foresee that there is a crisis, why is this not being communicated early?

Mahabaleshwara M.S.: Yashwant, I think you are closely watching what is happening in the banking sector, so this year how many banks have so far declared the results?

Yashwant: I completely agree, Sir, my question is...

Mahabaleshwara M.S.: I think among the peer group, we are the second to come out with the result after the Federal Bank. So you can compare the peer group and that is why I said consistently we have been doing that and we have this practice of 100% auditing of the branches also, that is why I have made it very clear that is the reason, these are the facts. I think hereafter you will be able to bat for us in the market. We will see if there is any further need for improved investors' communication, we will definitely adopt those best practices.

Balachandra Y V: It is an eye opener how the inferences are drawn even though everybody is aware that practically it is not possible for anybody, lockdown areas are there, sealed down areas are there, branches were actually allowed to offer only limited services, so we thought that it is well understood in the market that this time there may be delay. Anyhow this point is well taken. Regulatory, yes, we have been communicating the Board meeting dates well in advance. If there is

any similar kind of situation going forward, we have noted to keep the investors well-informed.

Moderator: Thank you. We take the next question from the line of Parthiv from NBS. Please go ahead.

Parthiv: Sir, I just wanted to know the cost of funds for the bank?

Mahabaleshwara M.S.: Cost of fund is around 7.62%.

Parthiv: Sir, any idea against last year FY '19 would be?

Mahabaleshwara M.S.: 7.29%.

Parthiv: Sir, you just replied to me sometime back on my remarks on the matter in the auditors note, so just as an investor of a bank, I just wanted to, it is humble request because this gives a bit of a misconception or misinformation that the branches have not been audited at all, because eventually these kind of information when it goes to online portal not just the BSE or your website but there are N-number of online pages and groups which these kind of information go, as an investor it affects our valuation?

Mahabaleshwara M.S.: We too did not realize.

Parthiv: You need to clearly mention because at the end of the day, a statutory auditor has to rely on a branch auditor before giving out the financials irrespective of you give out in May or you give out in June, but they have to rely on the branch auditor at the end of the day because it is practically impossible for a person or a company to run around the entire nation?

Mahabaleshwara M.S.: I am also on the same page. We will bring it to the notice of the SCAs for doing the needful.

Parthiv: If possible, please Sir, as a humble request please just put it across BSE with a revised language or a revised note to the investors, just upload a small one-pager kind of a thing which will help a lot basically?

Mahabaleshwara M.S.: Your suggestion is well taken, I will take it up with the Central Statutory Auditor.

Parthiv: Yes, whatever language as per the auditing committee they have to use it, they will use it of course that they are efficient to do it, but just as an investor it gives a very wrong impression, Sir?

Mahabaleshwara M.S.: Yes. It will be addressed.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to the conference back to Mr. Aalok Shah for his closing comments, over to you.

Aalok Shah: Thanks Janice. On behalf of Monarch Network, we thank you all for joining on this call. Thank you Mahabaleshwara Sir, Balachandra Sir, and Muralidhar Sir and all other senior management team for taking out your time. Thank you and have a great evening.

Mahabaleshwara M.S.: Aalok, thank you and thanks to all the participants who have taken not only keen interest, I know that they have taken lot of trouble also. Many of them might have joined from their respective houses also. Most important thing is we are all passing through the difficult days of COVID-19, so I would pray God and also wish all the best to all of you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Monarch Network, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.
