"Karnataka Bank Limited Q4 FY '21 and FY '21 Earnings Conference Call hosted by Monarch Networth Capital Limited"

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MODERATOR: **MR. AALOK SHAH – MONARCH NETWORTH CAPITAL LIMITED**

Moderator:
Ladies and Gentlemen, Good Day and Welcome to Karnataka Bank Q4 FY '21 and FY '21 Earnings Conference Call hosted by Monarch Network Capital Limited. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aalok Shah from Monarch Networth Capital Limited. Thank you and over to you, Sir.

Aalok Shah:
Thank you Aman. Good Evening all, on behalf of Monarch Networth, we welcome you for Karnataka Bank's Q4 FY '21 and FY '21 Results concall. From the bank side today, we have the MD & CEO – Mr. Mahabaleshwara M.S.; the COO – Mr. Y. V. Balachandra; the CBO-Mr. Gokuldas Pai, and the CFO – Mr. Muralidhar Krishna Rao and other senior management team.

Without taking much of your time, I would request Mahabaleshwara Sir for his initial comments post which we can take Q&A session. Thank you and over to you, Sir.

Mahabaleshwara M.S.:
Thank you Aalok and Good Evening and Welcome to all of you for this con call of the Karnataka Bank for the quarter and year ended March 31, 2021. Friends, the year ended March 31, 2021, was definitely an one-off sort of year as the entire world witnessed challenging economic conditions and also the associated uncertainties on account of COVID-19 pandemic. Fortunately for us at Karnataka Bank, as we chose the path of being conservative and cautious at the very first site of the COVID-19 pandemic problem, this year turned out to be a special year for us in terms of performance. As the detailed analysis of these results has already been uploaded and you might have already glanced through this, our operating profit year-on-year went up by 20.67% and the net profit also went up annually by 11.76% and reached a new high of Rs. 482.57 crores. Most importantly during this just concluded year, we focused more on further strengthening the balance sheet and of course on asset quality. As far as balance sheet strengthening exercise is concerned, the first thing what we focused was on further improving the capital to risk weighted asset ratio (CRAR). In fact the minimum stipulated CRAR by Reserve Bank of India is 10.875%. Last year our CRAR was at 12.88% and this year we have further improved it to 14.85%. Similarly, we also focused on PCR, which was at 64.67% last year and the current year it is further improved to 70.05%. As far as the asset quality is concerned both the GNPAs and NNPAs, they have moderated as our GNPA which was at Rs. 2799 crores about a year back has now improved to Rs. 2588 crores in absolute terms, that means, there is a reduction of Rs. 211 crores in the GNPA during this COVID-19 pandemic affected year.

Also, if you look into the NNPA, it has come down from Rs. 1755 crores to Rs. 1642 crores as at March 31, 2021, thereby NNPA is reduced by Rs.113 crores. This is in terms of absolute numbers. But if you look into the percentages both the GNPA as well as NNPA, there is increase of around 10 bps mainly on account of the denominator factor as our overall loan book has come down by around 9%. This 9% reduction is again on account of reduction in the large corporate advances. In fact our large corporate advances have shown a degrowth of around 55% whereas the retail and the mid-corporates advances have grown by 6% and 7%, respectively. On account of this, the retail loan book which was at 45% of the total loan book about a year back has now improved to 53% and the mid-corporate loan book also has improved from 29% to 34% and large corporate loan book has come down from 26% about a year back to 13% as of March '21. Of course, we also focused on the liability side i.e., a "cost lite" deposit portfolio. So in this connection we took two major initiatives, one is to improve the CASA, which improved to 31.49% from 28.91% about a year back, and is a new high for Karnataka Bank and secondly the verall cost of deposit also, because of the interest rate moderation and rationalization, reduced from 6.01% about a year back to 5.29% now.

The SMA portfolio details are given in the Investor Presentation analysis. In SMA-2 we have included the main accounts, the related accounts and also the accounts which are reported to CRILC platform i.e. Rs. 5 crores and above and also below Rs. 5 crores. In the March '20, it was at 2.99% of the total loan book. As far as March '21 is concerned, it is at 2.64% of the loan book.

So in essence, what we have observed that even though COVID-19 pandemic effect was there in the economy, we have been able to navigate successfully without allowing our asset portfolio to deteriorate. The stress in the system also being very closely monitored and let us see how this current year would emerge in view of the second wave of the COVID-19. I am very confident that on account of our very good experience during first wave, we should be able to handle it in a better and very competitive way.

The digital transactions was another area, which has improved to 90.66% of the total transaction, so now this is very much at par with the new generation private sector banks.

Our wholly owned subsidiary i.e. KBL Services Limited has commenced its operations with effect from March 30, 2021. It would act as a facilitator of efficiency for the parent company, i.e., Karnataka Bank.

Our digital underwriting of retail loans, gained momentum during the last year, i.e., FY 20-21. In fact, the home loan portfolio underwriting is fully digitalized and now about 72% of our daily sanctions are done through the digital platform. During the Q3 of FY 21 it was at 63%. Similarly car loans, around 75% are being sanctioned under the digital platform. Last quarter it was at 73%. Last year we have also started the MSME digital underwriting which has reached to a level of around 42% of the MSME loans. I am confident that going forward, we will be able to reach an ideal level of around 80% of all our retail loans to be sanctioned under the digital underwriting platform.

Yesterday i.e., 26.05.2021, our Board of Directors has appointed a new Additional Director, Mr. Balakrishna Alse S, who is the former Executive Director of Oriental Bank of Commerce and with this, 75% of the Board members are Independent Directors and among them ,two are women Directors. Board has also recommended a dividend of 18% (Rs. 1.8 per share) subject to the approval of the shareholders at the ensuing annual general meeting.

As far as the "Way Forward" for the current year, you all know that uncertainty will continue. So naturally, we have to be very cautious and conservative. As and when the things start evolving, we should jump into the action to encash that opportunity. Our loan book and the overall growth of the business we are expecting it to be around, 12% - 15% for the current year. On the asset side, we will continue to focus on gold loans. This was one area wherein there is very good potential and we have now almost at 5% of our loan book under the gold loans and we plan to take it to a level of 10% of our loan book. Simultaneously, we will continue to focus on the very potential area of MSME car loans, loans against properties etc., with improved underwriting capabilities. We will focus in the area of retail and mid-corporate only. As I said, we will continue to focus on CASA and that is in tune with our cost-lite portfolio concept. And with operationalization of our subsidiary, the operational efficiency would also further improve. We will be taking the digital initiatives to a new height, called “KBL Next”, end-to-end digital solution for each and every aspect of banking not only for the customer interaction, customer-related activity, but also for other internal processes. So, there will be a digital end-to-end solution. That is in a big way to emerge as “Digital Bank of Future” and that is what we are planning for new Karnataka Bank and as you all know, our centenary year is scheduled for the year 2023-2024. We have some new benchmarks in terms of performance, achievement for the current year, i.e., FY21-22 which should be an “Year of Excellence” in spite of the external adverse conditions. So, I and my team are totally determined to go forward in that direction. With these few words of opening remarks, now this forum is open for the specific questions and answers session, if any from your side. Over to you, thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Pranay Dhelia from Panchatantra Advisors. Please go ahead.

Pranay Dhelia: Sir, Good Evening, I have been a shareholder of the bank for now close to six years fairly long time and have been hearing of consolidation and the bank will focus on growth in the coming years, but unfortunately the growth has been missing and this quarter you know the numbers we had shortfall in net interest margin, the growth was not there, the NPA in terms of percentage terms has gone up, so as a shareholder if I would have been holding HDFC, ICICI, I would have benefited, being such a long-term shareholder I feel that the bank has somehow not unlocked its potential what the sector could offer?

Mahabaleshwara M.S.: This year i.e., the year ended March 2021, two things happened. You might have already noticed that one is basically the top line, second one is the bottom line. So we have not found it that conducive to focus more on the growth-related things but as I said, we focused on the two areas where we found it is convenient and safe. That is why a safe approach was followed as far as the top line is concerned and we have not allowed the potential areas of the retail and mid-corporate to suffer where we have already registered a growth of 6% and 7% respectively. Secondly, in spite of that, we are able to fully protect the bottom line, you might have already seen the net profit has already grown at a level of around 12% and this 12% net profit has been very consistent for the last four quarters and going forward when once the economy is found favorable, definitely we will be encashing that opportunity because we have constituted, marketing teams and a credit marketing department and we will be able to encash the opportunity at the very first sight of turnaround of the economy.

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

Bhavik Shah: Thanks for the opportunity, a very detailed disclosure. Sir what would be the interest reversal this quarter on slippages?

Mahabaleshwara M.S:
As you know, because of the Supreme Court stay order NPAs were not marked upto 3rd quarter and the whole bunch of NPA got marked during the last quarter. The unrealized interest during the last quarter is around Rs. 140 crores which has been reversed from the income amount, that was for the full year but it happened in last quarter. Whole year’s unrealized interest got reversed during the last quarter.

Bhavik Shah:
Sir, I understand we are targeting growth of 12%, how confident are we to clock 12% and what would be the focus areas like I understand gold loans, the share would rise from 5% to 10%, but apart from that and considering?

Mahabaleshwara M.S.:
At the beginning of the year, we were all confident and optimistic and during April everything was going as per our expectation. But May appeared to be again a troubled month, June also, we do not know what would be in store because it all depends on how well the country would be able to control the wave-2 .That would prove whether we can really focus big in the initial month. What we have planned is, first three to four months growth may be at a muted level, but thereafter, we should be able to make a big turnaround and go big in the growth-related areas. I have already identified certain areas for the growth as I said in my initial comments MSME, agriculture, gold loans, the car loan, the loan against properties etc. In fact, last year also, our gold loan portfolio grew by 41.92%, MSME grew by 21.15%, agriculture portfolio grew by 5.87%, and the loan against properties grew by 8.62% and these portfolios are performing well and these are the initial areas that we have identified under our sector prioritization strategy.

Bhavik Shah:
Sir, we understand the slippages from MSME book was quite elevated, so can you broadly give us the breakup of slippages into retail, agri, MSME, and corporate?

Mahabaleshwara M.S.:
As of now, out of the total loan book, MSME consists of Rs.14,653 crores, NPA is Rs. 979.17 crores which constitutes around 6.68% of that portfolio and the SMA-2 is at around Rs. 593.40 crore, so 4.05% of the total MSME performing advances is under SMA-2. In agriculture advances, the present NPA is at 6.64% and SMA-2 is at 1.64%. If you look at the housing loan portfolio, the NPA including not only our Apna Ghar schematic loan, but even the non-priority sector, the NPA is at 3.08% and SMA-2 at 2.38%.

Bhavik Shah:
Sir, as in lastly break up of slippages segment wise?

Mahabaleshwara M.S.:
The segmetwise wise slippage we will let you know, separately.

Bhavik Shah:
Sir, one more thing, what exposure do we have to Karnataka State in terms of advances and how does the collection efficiency panned out in Karnataka State versus the rest of India for March, April, and May month?

Mahabaleshwara M.S.:
Not only Karnataka almost top six States are adversely hit by COVID-19 pandemic. There is localized lockdown and in few districts even branches were also closed down. The total business contribution from the State of Karnataka is 59.21% with a CD ratio of 49.33%. The collection had come to normal situation

during the month of March and April. So, May may not be that good as compared to April. There could be slight decline in the collection during the month of May and once we complete this May month, we will come to know what exactly is the position, but I am confident that by July onwards, the position may improve significantly, but these two months the stress will be there and with regard to various relief measures, we should be able to handle it effectively and going forward, because we have another 10 months during this year and that would prove advantageous for all of us.

Bhavik Shah:
Sir, any ballmark number on collection efficiency and one last question Sir, how do you see your PCR panning out over the next year because we are at very low PCR of 37%, specific PCR?

Mahabaleshwara M.S.:
As the lockdown impact gets receded, the collection efficiency is bound to bounce back. Further, PCR in the banking sector is calculated including the technical write off. In our bank including the technical write-off, PCR, is at 70.05% and excluding the technical write-off, it is at 36.56%. This will continue to engage our attention because this will help us in further reducing the NNPA.

Moderator:
Thank you. The next question is from the line of Sudheer Mahajan, Individual Investor. Please go ahead.

Sudheer Mahajan:
Good Evening Sir, the results are good but it could be better, Sir I do not understand one thing in your point number 12 in which you could have carried on this 189 crores over three quarters and you have put in one quarter, was there any need to do it in one quarter rather than over three quarters?

Mahabaleshwara M.S.:
Your point is regarding the item number12, that is Rs. 189.37 crores. Actually there was option for us to amortize it in the current year’s three quarters equally. What we thought that, it is better to absorb these type of losses upfront, that is why, during the first quarter itself, we had absorbed that entire hit. That means, it was reversed to the reserves and surplus and that shows our ability to absorb the future shocks also. To further strengthen the balance sheet, we took that hit upfront even though there was an option to amortize it for the rest of the three quarters. It was a prudent proactive measure.

Sudheer Mahajan: But this depresses the net profit?

Mahabaleshwara M.S.:
No, because it would have been amortized over three quarters and we took the hit in the first quarter itself. In fact, inspite of that even during the first quarter, our profit went up by around 10%-11%.

Sudheer Mahajan:
Sir, next part whereas your corporate banking thing has come down by about Rs 6000 crores and your retail banking has run up by about Rs 1000 crores, and a lot of this money just lying in investments and in cash, what was the reason for such a drastic drawdown in the corporate banking?

Mahabaleshwara M.S.:
Our corporate banking portfolio was not performing as per the expectation. Not performing in the sense, that delinquency in the past was higher and also yield from that particular portfolio was also not up to the expected level. When we made an in-depth analysis, we found that the retail and mid-corporates, the performance is better and the risk is well diversified and also, yield from this particular sector is attractive. Keeping that in mind, we took up this exercise of portfolio realignment. So, as I have already said even during the pandemic year, the retail advances grew by 6% and the mid-corporate by 7% and we will further consolidate it. So, now we are in a better position to tap this particular sector and we will be making good of the loss that we had suffered. We will definitely make good of that in the retail and mid-corporate sector which would also provide an element of sustainability to our credit portfolio. That was a very cautious and conscious decision taken by our bank. In our KBL Vikaas journey, we have now almost entirely digitalized the loan underwriting for the retail sector which is a huge advantage that will definitely be available for the current year onwards.

Sudheer Mahajan: There has been a shortfall on the book value of your investments HTM, has that been also provided fully in this quarter?

Management:
Depreciation on HTM is not required to be provided as per the RBI guidelines. The depreciation on the AFS and HFT category has been provided. There was no depreciation on portfolio other than SR and Non-performing investments.

Sudheer Mahajan:
Because you have made a statement that the market investments held under HTM category?

Management:
HTM category there is a depreciation of around Rs. 275 crore. But it need not be booked in the books of account as per the extant RBI guidelines.

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

Rishikesh Oza:
Sir, just one question, could you please give a credit cost guidance for next year?

Mahabaleshwara M.S.:
Credit cost, there are two components involved in it. One is the slippage and the second one is our proactive provisioning so as to improve the PCR and of course, eventually CRAR also. So on account of all these, though this year it is at 2.37%, next year it could be in the same range and going forward, I am confident that it would moderate to below 2%.

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

Bhavik Shah:
Sir, thanks for the opportunity again, we have restructured book of around 1700 crores, Sir at what rate can we expect slippages from this book going forward?

Mahabaleshwara M.S.:
I think we have already furnished that. Restructured loans, during the current year, it was at Rs.1738 crores i.e., 3.30% of our gross loan book and of that, NPA is Rs.249 crores, i.e., 14.3% of the restructured loan book is already NPA. So the slippage could be in the same range from the restructured loan book, maybe around 15%. If you look at the SMA-2 for March 21 in this particular portfolio, it is at 6.61% and that is a clear indication that slippage is well contained and may not go beyond a particular level going forward.

Bhavik Shah: Sir, amidst the second COVID wave, what extent of potential restructuring do we expect?

Mahabaleshwara M.S.:
For the restructuring 1.0, I had predicted about 2% to 4% of our total portfolio, so in this Rs.1738.41 crores of the restructured loan book, OTR-1 was around Rs.459 crores and MSME restructuring was Rs.337.93 crores and other type of restructure was Rs.940.70 crore. In this Rs.940.70 crore, the previous restructure was around Rs.536 crore. So all put together, the percentage to GBC was 3.30%. OTR-1 was 0.87% of the loan book, MSME restructure was 0.4% of the loan book, and of course others is 1.78%. Going forward also under the restructuring 2.0, most probably it would be in the range of 2% to 4% and we have already constituted a special task force under the leadership of Chief Business Officer (CBO) to examine each and every sector and each and every account for restructuring. That process would be completed most probably by September end and account wise details will be calculated. We will be interacting with respective beneficiaries also and we will be extending the appropriate relief measures as per the regulatory guidelines.

Bhavik Shah:
Sir, I understand you are guiding for additional 2% to 4% of restructuring in the COVID second wave and Sir there is this one clarification needed, what falls under other restructuring?

Mahabaleshwara M.S.:
Other restructuring is other than the MSME. OTR-2 is up to Rs.25 crores. In the other restructure, there were accounts above Rs.25 crores and last time corporate advances were also there. In fact we have identified two big accounts for restructuring, constituting of about Rs.400 crores.

Bhavik Shah: What sector are these two accounts from?

Mahabaleshwara M.S.: One was from trading and other one is construction activity.
Bhavik Shah: Sir, any ROA guidance?

Mahabaleshwara M.S.:
ROA, we are trying our level best. I would like to touch upon NIM, ROA, and ROE also. NIM, has slightly improved to 2.91% i.e., as of March '21, last year it was at 2.84%. Our endeavor should be to take it at above 3% by this year end. In ROA, some positive traction was observed for the entire year i.e., 0.53% to 0.57%. I think it may take about couple of years to reach a level of 1% and ROE also from 7.35% to 7.65% for the entire year again to reach a level of 10% plus it may take another couple of years. Of course, these are engaging our attention and once we are able to minimize the slippages, definitely these things would

look better and for that type of turnaround, initial signals are already there even though it was a COVID-19 affected year. It all depends on to what extent we will be able to sustain the quality of advances which I am very confident. With that, these numbers should look promising.

Bhavik Shah:
Okay, and Sir just one more clarification, you mentioned that there were two accounts, large corporate accounts and the restructuring totaling to 400 crores, Sir are these NP as of now or just standard?

Mahabaleshwara M.S.:
They are not NPA, they are standard and ICA also signed.

Bhavik Shah:
Sir, what is the ECL disbursement amount, Sir I understand there is a slide which mentions advances under ECLGS, is it disbursement or?

Mahabaleshwara M.S.:
GECL Rs. 2198.94 crores is outstanding. Sanction may be another Rs.200 crores and disbursement could be in the range of Rs. 2300 crores or so.

Moderator:
Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar:
Thanks a lot Sir, just two questions, one is that is there any slippage guidance that you can give for next year, that is one? Second is Sir up to what level of employees have we actually distributed our ESOPs, is it branch manager and if not then why not do it in this AGM, get that approval in this AGM that is second? Third is that how open bank management and largest shareholder is to say get into the bank one or two private equity players or guys who can actually bring more managerial assistance and also have a Board sit in the bank because the bank is so much undervalued for the quality of franchise that you have, three or four big changes can actually unleash very good future returns, thanks a lot?

Mahabaleshwara M.S.:
I think you raised three questions, one is regarding slippage, second one is ESOP, third one is further enhancing the equity. Slippages, as I said that it would be in the range of around 2% for the current year and going forward it should come down because slippage was 3.75% during the last year and this year, it is only 2.44% and that too, on the back of a COVID-19 wave-1. For the current year, we are hopeful that slippage would be in the same range and going forward, it would be below 2%. ESOP, yes, we have already launched a scheme, it is very much there in the Bank. It is not up to the Manager or officer, but it is purely based on their performance. We have MD's Club and other category and wherever there is exceptional and very good performance, they are rewarded with ESOP. We have made up our mind to continue this type of reward programme to encourage performance as well as involvement of all our employees right from MD to branch level staffs. They all have different KRAs and in accordance with their performance, ESOPs are being considered. As far as the third one is concerned, yes, there are two things. One is the capital adequacy ratio and the second one is the right price for our share. Capital adequacy ratio now it is comfortable at 14.85%. Secondly, even though the book value has gone up to Rs. 213 per share, it is not properly reflected

in the market price. So in that direction, foremost priority is to further strengthen the professionalism of the Board. You may be aware that we had inducted good number of independent Directors in the recent past. As far as onboarding institutional investors etc., we will be definitely examining it in the larger interest of all the stakeholders.

Moderator:
Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla:
Thank you Sir, thank you for giving me the opportunity, first of all on the employee expenses if we see, we have reported 240 crores of employee expenses during this quarter which has been lower as compared to YOY as is on a sequential basis, so if you can share what should be the normal run rate we should see in FY ’22 and as well as if you can share your guidance on cost-to-income ratio?

Mahabaleshwara M.S.:
Here the establishment expenses consists of two components. One is almost a fixed component i.e., the salary. Second one is superannuation benefit component, which is varying in terms of the market yield and current year we are not going big for any recruitment because of the digitalization. The employee cost may remain at the same level subject to variation in the superannuation benefit. Second part of your question is cost-to-income ratio. Last year during the same quarter i.e., the fourth quarter, our cost-to-income ratio was 58.17% and this quarter i.e., the fourth quarter of the FY 21, it has improved to 53.90%. But if you look at for the entire year, it was at 49.67% and for the current full year it has further improved to 45.65%. Going forward, our endeavor is to have it at around 45%. Last year also, we had aimed to have it around 45%. Having achieved that, our responsibility is to maintain this and further improve it.

Bunty Chawla: Secondly, any equity raise, any capital plan during this year we have?

Mahabaleshwara M.S.:
That is a continuous process. We will be keeping all the options open and at the right time, definitely we will look into that. As of now, our capital adequacy ratio is comfortable at 14.85% which is also one of the factors to be borne in while undertaking capital augmentation measures.

Bunty Chawla:
Sir, lastly just a confirmation, you said slippage ratio guidance at 2% as well as credit cost guidance for FY ’22 of 2%, am I right Sir in that?

Mahabaleshwara M.S.:
The slippage ratio could be in the same range i.e., 2.44% for another one year and going forward, it would be below 2%. Credit cost, since we are now in the phase of making proactive provision, it could also be in the same range for couple of years. So, credit cost at the same level is not mainly because of the slippage, but also because of the proactive steps in accelerating our provision.

Bunty Chawla: So what is our internal target PCR for FY ’22 if you can share with us?

Mahabaleshwara M.S.: PCR is presently at 70.05%. It was at 64.70% about a year back and definitely we will always be interested in maintaining it at above 70%.

Moderator:
Thank you. The next question is from the line of Deepak Pai, Individual Investor. Please go ahead.

Deepak Pai:
Good Afternoon everyone, I am a relatively new investor and I do not know much about banking frankly, but there is one thing that I have noticed over the past four years, the bank has been giving shocks in Q4 in terms of net profit, is that something that is, I think it was about 11 crores in '18, profit was about 62 in '19, and 27 and '20 and 31 this year, right, roughly thereabouts, so are those all exceptions or is there a method to this, that is one part? I understand this year your provisions were higher but then, but it has been the trend for the last four years now.

Mahabaleshwara M.S.:
It is a natural process. In the sense, every quarter is an unique quarter, not just the first quarter or the second or third or the fourth quarter. Depending on the overall operating profit, we have to make provisions as per the regulatory requirements and we have already noted that during the current year, the fourth quarter was something unique because all NPA provision, NPA recognition etc., we had to do during the last quarter. The accumulated effect was also there. But nevertheless, our effort would always be to give a consistent performance and consistent results. That is what I said in my opening remarks also. On an average, about 10% to 15% bottom line growth, consistently we are providing, so from that angle that is not an exception.

Deepak Pai:
The second one is as you look to balance your portfolio more towards perhaps retail, there are two parts, one is what would your strategy be given that there would be more competition for retail loans and B, will that make an increase in your marketing and sales costs and how much?

Mahabaleshwara M.S.:
Both these aspects are taken care of during our digital journey. As you have rightly pointed out, retail is the buzzword for almost all the banks, which clearly indicates that there is good potential. Even during this pandemic affected economic scenario, the home loans have a very good demand and we have now embarked upon digital underwriting and we will be making it more competitive and the quality aspect is also taken care of. With this, we are expecting good sustainable business in that particular portfolio.

Moderator:
Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
Saket Kapoor: Good Evening Sir and dhanyavad for this opportunity, Sir if I could sum up from the interaction we had currently, as the book value stands currently at Rs. 214 and you guiding for an ROA of 1% in the coming two years and the NIM, I missed the part, what is your guidance for the net interest margin going forward?

Mahabaleshwara M.S.:
It should reach 3% during the current year, because it is already at 2.91% for the full year.

Saket Kapoor: For a two-year horizon Sir what should we be looking into?

Mahabaleshwara M.S.:
Definitely 3% plus, we will be able to take it to a level of 3% by this year, thereafter we will try to further improve it.

Saket Kapoor:
Sir, as you told that market is not valuing the equity correctly, what is actually the Management timeline and what are the key milestones that we investors and the analysts should keep tracking that would result in the enhanced or the right value of equity, if you could Sir just briefly summarize for us?

Mahabaleshwara M.S.:
I am not an investor so I cannot give any suggestions or advice to you. But only thing with my limited knowledge what I can share with you is keep tracking the numbers that is being published by us and that is why we have also started proactive communication to all the shareholders. The moment the audited results are reviewed by the audit committee and approved by the Board of Directors, we are sharing all those information. Further, the practice of uploading a detailed analysis of the performance in the website. Whatever the investors would require to take an informed decision, we are analyzing the same and we are uploading it in our website, please go through that. Also go through all the disclosures which are being made to the stock exchanges as well. Apart from that, definitely we are here to take care of the requirements of all the stakeholders in a transparent and effective manner.

Saket Kapoor:
Sir, I was looking for the key milestone from the Management point of view, say two-three years down the line that would result in enhanced shareholder value, I was looking for that comment from you?

Mahabaleshwara M.S.:
We had focused on not just only two areas but we had focused on five areas. First one is, we were very much interested in improving the CRAR, that we have achieved now. At present, it is at 14.85%. In fact this is the highest ever CRAR for Karnataka Bank and that reflects the strong fundamentals. Second one is the PCR, which is now at 70.05%. The third one is our digital transactions percentage which we had thought of taking it to a level of almost equal to the new generation private sector banks. Now it is at 90%. The fourth one is CASA and cost-lite portfolio that is at 31.49% .The fifth one is digital underwriting capabilities. These are the fundamental changes that we had focused in the past and we have been able to achieve and of course, the next important areas could be NIM, ROA, ROE, containing the slippage ratio and the credit cost. Because we are able to effectively handle the NPA, which we have been reasonably successful during the current year, going forward, I think those problems will not be there. So our NIM, ROA, ROE, would definitely look promising. Going forward, keep tracking these numbers and I will also keep sharing these information through investors communication mode.

Saket Kapoor:
One small point, when we look at the segment revenue and the segment result, we find for this quarter in particular, the treasury operation income have gone down considerably taking the proportionate on a quarter-on-quarter basis and also on the corporate banking front, Sir any specific that we have been made on the revenue part that decline is not that severe whereas the bottom line, there is a strong shrinkage, so how should we read into these two numbers, for treasury operations and corporate banking?

Management:
Due to upward movement in the yield Bank could not earn much profit from treasury segment during the quarter. Further, additional provision on ST portfolio and MTM loss on trading book impacted the earnings in Q4.

Saket Kapoor:
So that happened in the fourth quarter only Sir, just to make understanding Sir on a revenue of 341 crores, the treasury income is 78 crores whereas for December quarter on a revenue of 389 crores the treasury income is 130 crores, so I just wanted to understand the reasons for the decline?

Management:
The profit on sale of investment during the first three quarters was very good. From February onwards, we were not able to earn much profit from this segment. That has affected the last quarter segment reporting. And the treasury profit was basically market driven.

Saket Kapoor:
Right Sir, but a bulk of your profits are from this treasury operations only, this year also 778 crores, so if they are on a declining trend, then what is the indication?

Mahabaleshwara M.S.:
Last two years we could earn a decent profit from that portfolio. Our endeavor should be to continue to earn the profit but it is too early to predict because we have not even completed two months. So it depends on the market opportunities and we are confident and optimistic that we should be able to get decent profit from that portfolio also going forward.

Saket Kapoor:
Lastly on the dividend payout Sir, what was there as per the RBI formula, the maximum that could have been given or 18% was the maximum dividend payout?

Management:
Actually as per the Reserve Bank of India dividend payout ratio formula, wherein matrix has been given for dividend payout and based on that, bank is eligible to have a payout ratio of 25% and only 50% of that was permissible and it translated into 18% dividend. Whatever is permissible as per the extant regulatory guidelines, we have considered for the dividend.

Saket Kapoor:
Lastly Sir on the GNPA part, what is your guidance on, what are we looking going forward, looking at now the books and the provision coverage ratio, what should be eyeing in terms of the GNPA for the next two years?

Mahabaleshwara M.S.:
I have every reason to believe that GNPA is in the mode of moderation because it was at Rs. 2799 crores last year, now at Rs.2588 crore. In our presentation also we have analyzed the GNPA in the area of big ticket advances and mid-corporate and retail. In almost all the big ticket advances of Rs.50 crores and above, the stress is fully absorbed, so with that, the GNPA in absolute terms is likely to come down. That is why I am optimistic that the slippage ratio would also moderate at around 2%. This year, obviously we have

to be very cautious because of the COVID-19 wave-2. The only thing is depending on our past experience of having handled it in very effective manner, I am confident that we should be able to sail through smoothly during this wave2 as well.

Moderator:
Thank you. Ladies and Gentlemen, that would be our last question for today. I now hand the call over to Mr. Aalok Shah for any closing remarks.

Aalok Shah:
Thank you Mahabaleshwara Sir and the entire team for taking out your time and putting forward the thoughts on the results and the way we look forward. Thank you all for joining in.

Mahabaleshwara M.S.: Thank you. I wish you all a safe and healthy life. Thank you one and all.

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

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