

Karnataka Bank Limited Second Quarter Ended September 30, 2014

Conference Call Transcript

Event: Karnataka Bank Limited Second Quarter Ended September 30, 2014 Conference Call

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P. Jayarama Bhat- Call leader

Managing Director and Chief Executive Officer - Karnataka Bank Limited

PRESENTATION

Harshita– Moderator

Good morning, ladies and gentlemen, I am Harshita the moderator for this conference. Welcome to the conference call of Karnataka Bank Limited. Shri P. Jayaram Bhat will be a 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. I now hand over the call to Shri P. Jayaram Bhat. Thank you and over to you Mr. Bhat!

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

Thank you. Thanks for all the participants who have come on a holiday of Saturday today. We have published our results yesterday and also it was published in our website. The analysis of the results was also published immediately in our

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

website. I think you have gone through those analysis also, still to give you some highlights of our results for this second quarter.

The deposits have increased Y-o-Y by 16.26%, advances 12.27%, investments 13.19%, business wise about 14.2% then net interest income for the quarter-to-quarter it has just rose from Rs.284.54 crores to Rs.297.26 crores by marginal increase of 4.47%, then other income has gone up from Rs.87 crores to Rs.102 crores, an increase of 17.05%.

Fee based income has gone up by about 9%, total income has gone up by 11%, the operating profit has come down from Rs.171.64 crores to Rs.162.62 crores year-on-year, a reduction of 5.26%. The net profit has increased from Rs.28.95 crores to Rs.88.46 crores.

NIM has come down from the last quarter. Last year's second quarter it was 2.63% and now it is 2.41%, gross NPA compared to the last year's figure from Rs.962 crores it has gone up to Rs.1060 crores, percentage of gross NPA from 3.59% it has come down to 3.53%. Net NPA has gone up from Rs.593.09 crores to Rs.702.24 crores that is, from 2.25% to 2.37%.

CASA has increased from Rs.9039 crores to Rs.10746 crores that is percentage wise it has increased from 23.78% to 24.32% CASA increase year-on-year was 18.89%.

Yield on advance has come down year on year from 12.54% as of the previous second quarter's to 12.12%. Cost of deposit from 7.96% it has come down to 7.88% but overall interest spread has come down from 4.58% to 4.24%.

CRAR has come down from 13.47% that is as per Basel II to 12.31%. CRAR of Basel III from 13.22% to 12.08%. In the case of NPAs, the addition for NPA in this particular quarter was Rs.229.62 crores and the recovery including write-off comes to around Rs.168.03 crores. All these figures have been mentioned in our analysis.

If you look at the sequential results from the June to this September, 2014, the NII has gone from Rs.278.21 crores to Rs.297.26 crores. Other income has come down from Rs.129 crores to Rs.102 crores. NIM has gone up from last quarter 2.33% to 2.41% gross NPA has gone up from 3.43% to 3.53%. Net NPA is flat compared to June. It was 2.37%.

Under CASA, slight increase is there from the June 2014 that is from Rs.10,688 crores to Rs.10,746 crores. Yield on advances has gone up. This is a positive point from 11.96% last quarter that is as of June 2014 to 12.12%. Cost of deposit remaining same 7.88% to 7.88%.

Slippages last quarter it was Rs.266 crores and this quarter it has come down to Rs.229 crores and total recovery including write off from Rs.103 crores, it has gone up to Rs.168.03 crores. The write off element in this recovery in this quarter out of Rs.168 crores was Rs.37.25 crores and in the last year's figure of Rs.67.14 crore the write off was just Rs.9 lakhs.

The aggregate net profit for the six months period comes to Rs.210.09 crores compared to Rs.123.12 crores as of the last year's first half, an increase by 70.65%.

Before you ask let me say about the RIDF deposits. RIDF deposits have come down from Rs.2184 crores, that is the last quarter terminal figure it has come down to Rs.2090 crore, the difference is of 94 crores and yield has gone up from 4.58% to 4.73%. Priority sector advances we are at 42.95% for the half year. We are well ahead of target of 40% agriculture advances are 16.59% and just fallen short of 1.41%. The weaker section are at 8.98%.

Return on equity has moved up to 11% compared to last year's quarter of 3.9% and for the six months period ROE is at 13.31%.

Provision coverage ratio for this September end it is 50.70% compared to the last year's 50.18%. Cost to income ratio has moved up from 53.90% to 59.35% for quarter-to-quarter and for six months period it has gone up from 48.19% to 50.40%.

These are some of the highlights, I now invite the participants to ask any clarifications on any subject.

Harshita – Moderator

Thank you very much sir. 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 question may please press “*1” on their touchtone enable telephone keypad. On pressing “*1” participants will get a chance to present their question on a first in line basis. To ask the question, participants may please press “*1”now. First question comes from Mr. Ganesh Shetty from Mumbai. Mr. Shetty you may ask your question now.

Ganesh Shetty – Mumbai

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

Thank you very much sir for giving the opportunity. Sir the result has been satisfactory when we compare from year-on-year basis but as we compare from quarter-to-quarter basis the result has not been that satisfactory because of improvement in macroeconomic conditions and also we had a hard job of decreasing our NPAs and in that sense the NPAs have not that much improved compared to other new private sector banks and old generation private sector banks and although have had very hard work I know that management is doing very hard work with our technological assistance, we are doing it and we are very conscious of it but the results are not showing. That is the worrisome part of our results. Can you please explain this phenomenon sir?

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

Which area you are referring, results means which area?

Ganesh Shetty – Mumbai

I want to highlight on NPA sir. Compared to other private sector banks as well as the old generation private sector banks like Federal Bank, our NPA has not come down sharply or it is in the range of the same for the last one year. So can you please explain this phenomenon? How it can better our improvement going further?

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

The NPA figures now if you look at June gross NPA it was 3.43% just 10-basis points it has increased. In the last conference also, I have told that we have not gone for bulk sale of our NPAs and even in the first quarter, we have not done last year also we have not done and these NPAs are with us and this particular third quarter we are going to have some bulk sale of NPAs to reduce the gross NPA, but still we are waiting for good rates because I do not want to push away these NPAs for small realization and incur losses. That is why I am waiting but this is a certainty that there would be a sale of assets in the third quarter. In this quarter we have sold about Rs.52.29 crores of NPAs to ARCIL and there we had not suffered any loss and it was a win-win situation for us as well as to the ARCIL going forward there are likely realizations in the existing NPAs and I am expecting recovery of minimum 100 crores in gross NPA, under delinquency of last six months. So asset sale plus some more recovery, I think we are expecting gross NPA to come down to a level of 2.5% by December 2014. This is our assurance.

Ganesh Shetty – Mumbai

Sir you have already having roadmap of bringing down the NPAs to around 1.5% and what is the status over there sir?

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

Roadmap, I am not talking of net NPA. I am talking about gross NPA. If gross NPA is brought down to 2.5% net NPA will certainly be at a level of 1.5%.

Ganesh Shetty – Mumbai

Because of some new guidelines for ARCIL are we facing any problems for selling our distressed assets can you please?

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

15:85 new guidelines have come and all asset purchasing companies are very cautious now and with that also we will be successful in selling some of our NPA assets and I think most probably we may sell about Rs.250 to 300 crores in the third quarter.

Ganesh Shetty – Mumbai

Yes sir, recently my second question is reasoning our growth strategy recently our company had a board meeting regarding with KBL 2020 vision and there was no press release afterwards what is the highlight of that particular board meeting?

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

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

It is on the formation stage. Vision 2020 is based on the figures of March 2015. So we are going to have this document ready by somewhere in the first week of April because it is based on the estimated figure of March 2015 for the next five years. So Vision 2020 will be five years from March 2015. Not now because these figures we can only estimate our figures for March 2015. Let some two three months be over then we will be having an idea of our March 2015 figures on that we will be giving 2020 document.

Ganesh Shetty – Mumbai

Sir one more thing I want to congratulate you for the recent steps what you have taken for our growth strategies like MOU with the different companies like Ashok Leyland and (indiscernible).

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

That is all our quest for increasing the retail advances.

Ganesh Shetty – Mumbai

We were also optimistic of 83000 crores of business during this year and are you quite confident now of achieving all those booked assets?

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

Things are looking up, the retail advances are going up, economy is also improving with this I think we are even Rs.83000 crore is too far but still we have to aim at that and let us see by another two three months.

Ganesh Shetty – Mumbai

Sir my next question is regarding on agricultural advances and we are mostly into Dakshin Karnataka region of Karnataka State. Can you please explain me how is the status over there and loan advance statement or some other factors which may affect during for the sake of monsoon and all, so how do you see the situation over there as far as agricultural advances and recovery is concerned?

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

It is good. We have shown a year-on-year growth of 21.41% in agricultural advances both direct and indirect so with this growth rate we are definitely going to reach 18% for March 2015. We are at 16.59% now and our exposure to agriculture is Rs.5082 crores as of September 2014 definitely we will reach the minimum requirement of Reserve Bank 18% of ANBC.

Ganesh Shetty – Mumbai

Sir my last question is regarding this our stake in Universal Sompoo where we are having around 15% stake in the company and now the government has also liberalized and there will be lot of reforms going on and will happen in the insurance sector. What is our strategy of holding this stake and we will add some more stake in the company or what is a road ahead for this particular areas, can you please elaborate?

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

As of now there are no ideas of selling the stake or we may not increase our exposure in this stake to this company but we are waiting. Company is doing well. The company is earning profit now and going forward if they earn good profit definitely the price will improve the share price will improve then we can think. Another one or two years we may not think of meddling with our shareholdings with USGICL.

Ganesh Shetty – Mumbai

Finally I give you all the best wishes for Hundredth Centenary of the outright banking sector and Mr. Adiga and I wish you all the best Sir.

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

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

Thank you very much.

Harshita – Moderator

Participants who wish to ask questions, may please press “*” “1” now. The next question comes from Ms. Shweta Seth from Kolkata. Ms. Seth you may ask your question now.

Shweta Seth – Kolkata

Good morning Sir. Sir wanted to ask you about your slippages. We had some 229 crores in this quarter, was that account concentrated or it was small, small accounts were there. Could you throw some light on it?

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

No, it is spread over various sectors and out of that about 30% to 40% is for jewellery sector only and others are spread in various sectors, not concentrated on single sector.

Shweta Seth – Kolkata

Sir could you just throw some light as in Q3 and Q4 would see a similar level of slippages or do you see some stress going down because of economic conditions on ground improving and all?

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

I was just telling that economic condition is improving. We may not see such slippages in the third and fourth quarter. It will not be definitely more than Rs.150 crores but still we will try to see that it is reduced further and we will arrest the slippages as well as increase the recovery, so that as I have already told to one of the participants we will be aiming at 2.5% gross NPA level by December and if I think it is possible to reduce it to 2.25% or even at 2% by March 2015.

Shweta Seth – Kolkata

Sir just to take this forward you said that you would be selling some NPAs to the ARCs in third quarter. Can you give some ballpark figure for the quantum?

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

No we have just identified the assets and the asset purchasing companies are just examining our books. I think they had shown some good interest. We may sell about Rs.225 to Rs.300 crores.

Shweta Seth – Kolkata

Sir what sort of provisions is being provided on this? I mean these are all nonperforming assets or some would be like?

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

They are in the different status. Some of them are loss assets. Some of them are doubtful -secured and some of them are written off accounts.

Shweta Seth – Kolkata

Sir any guidance on your restructuring going forward, 5.7% of our total book, your outstanding would be right?

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

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

Restructuring book as of now is around 2013 crores and last June it was Rs.1894 crores. This particular quarter we have restructured about Rs.119 crores major four accounts and out of these restructuring one was from CDR, and going forward we may have a restructuring exercise to an extent of Rs.100 to Rs.120 crores in the next quarter. Next quarter means the current quarter, the third quarter.

Shweta Seth – Kolkata

Okay and sir just as in for your advances and deposits growth you think as in for March FY'15 you could end up with say 18% to 20%?

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

18% should be a reality in as far as advances are concerned. We are getting proposals and going forward we are intensifying our efforts to increase the advances and I think the economy is improving and with positive climate we should have a good growth.

Shweta Seth – Kolkata

Sir I mean your growth would be more towards retail advances is it?

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

Yes.

Shweta Seth – Kolkata

Sir Just an idea about your branch expansion by March 2015?

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

March 2015 as I already told it is 675. We are at 624 now. So 675 we will certainly reach and in ATMs we are at 775 and we will reach 1000 ATMs.

Shweta Seth – Kolkata

Sir by more increasing your branches your cost to income ratio you think would trend as little bit higher from this?

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

Simultaneously we are expecting increasing the business and also the income.

Shweta Seth – Kolkata

So sir if your, I mean gross NPAs would be trending downwards you would have more of income reversals right, so that would help your NII going forward?

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

No here see, I was talking about the asset sale, by asset sale there has not been any reversals.

Shweta Seth – Kolkata

Is better sir, recovery would be there right?

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

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

In the case of recoveries definitely there will be unrealized interest realizations the NII is likely to go up.

Shweta Seth – Kolkata

That is it from me. Thank you sir.

Harshita – Moderator

Thank you. The next question comes from Ms. Ritika Guha from Mumbai. Ms. Guha you may ask your question now.

Ritika Guha – Mumbai

Good morning sir. Just one question sir what is the restructuring pipeline?

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

As I told you it is around 100 to 120 crores.

Ritika Guha – Mumbai

Sorry actually I joined in late. What is our fresh restructuring this quarter?

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

Fresh restructuring this quarter is 119.10 crores.

Ritika Guha – Mumbai

So 119 crores was our fresh restructuring this quarter and 100 can you please pardon again, the pipeline number then?

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

120 crores maximum.

Ritika Guha – Mumbai

That is it from my side. Thank you sir.

Harshita – Moderator

Next question comes from Mr. Elesh Gopani from Ghatkopar. Mr. Gopani you may ask your question now.

Elesh Gopani - Ghatkopar

I wanted to ask what will be the dividend distribution policy of the company. Now we are going on the good recovery path and you expect the gross NPAs and net NPAs to come down so what will be your dividend distribution policy?

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

Karnataka Bank Limited Second Quarter Ended September 30, 2014

Let me see where I will stand as far as the profit is concerned and as we have a definite matrix from Reserve Bank as per that matrix if we are within the dividend payout ratio we will decide. Last year we had 40% dividend and around 23% dividend payout ratio, the net profit was Rs. 210 crores for this half year.

Elesh Gopani - Ghatkopar

So now what we are eligible to distribute?

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

We are not giving any interim dividend. We only pay final dividend.

Elesh Gopani - Ghatkopar

I understand that you are not giving the interim dividend now if your results are good at what level you can distribute our total profits, last time you have distributed 23%?

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

Let us see the realization how much profit will be there then I think I will be in a position to answer.

Elesh Gopani - Ghatkopar

In the vision document of next 2020 will you think of the declaring your dividend distribution policy?

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

No there will not be any distribution policy as such. We will be following the matrix of RBI. That is all.

Elesh Gopani Ghatkopar

Thank you sir.

Harshita – Moderator

Participants who wish to ask questions, may please press “*” “1” now.

At this moment there are no further questions from the participants I now handover the floor back to the Mr. Bhat for the final remarks.

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

Thank you very much. As you have not asked me the provisioning details as far as our results are concerned. What I wanted to inform you is that in the second quarter the provisioning was Rs.83.69 crores. There is a reversal of tax of Rs.9.48 crores so total provisioning comes to Rs.74.17 crores as against Rs.142.69 crores in the second quarter of the last year.

The major components of provisioning are that in this year the NPA provision was Rs.78.85 crores additional and investment depreciation additional Rs.5.17 crores. These are major one and in the last year second quarter the major was NPA provision of 77.59 crores, provision for investments, Rs.37.17 crores and the total provision came to Rs.126.71 crores and tax element was Rs.15.98 crores, total provision was Rs.142.69 crores. As you know we have provided Rs.116.51 crores in the first quarter of this year and in this the tax element was Rs.60.57 crores.

As far as the investment portfolio is concerned the duration for the AFS was 2.38, HFT 1.83, HTM 4.28. Overall it is 3.76. These figures we have published in our analysis.

Thanks for joining for this concall. I think being Saturday some of the people are yet to join and we are closing down our concall now. If any participants are there once again looking for any clarifications?

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Karnataka Bank Limited Second Quarter Ended September 30, 2014

Harshita – Moderator

Participants who wish to ask questions, may please press “*” “1” now.
No Sir, there are no further questions.

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

Thank you.

Harshita – Moderator

Thank you very much sir. Ladies and gentlemen this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant day. Thank you.