



**Karnataka Bank**  
Your Family Bank Across India

## Karnataka Bank Q2 FY2020 Earnings Conference Call October 16, 2019



**Karnataka Bank**  
Your Family Bank Across India



**MONARCH**  
NETWORK CAPITAL  
*wealthcare redefined*



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**Moderator:** Good day ladies and gentlemen and welcome to the Karnataka Bank Q2 FY2020 Earnings Conference Call hosted by Monarch Network Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aalok Shah, Analyst, BFSI at Monarch Network Capital Limited. Thank you, and over to you, Sir!

**Aalok Shah:** Thank you, Nirav. Good morning all. On behalf of Monarch Network Capital Limited we welcome you to Karnataka Bank's Q2 FY2020 earnings call. From the management side today, we have with us the MD and CEO, Mr. Mahabaleshwara MS, CFO, Mr. Muralidhar, and other senior management team. Without taking much of your time, I now hand over the call to MD Sir for his opening remarks followed by Q&A session. Over to you Sir!

**Mahabaleshwara MS:** Thank you, Aalok. Good morning to all of you. I am Mahabaleshwara MS, MD & CEO of the Bank. I am joined by my senior executive team regarding the concall on our Q2 FY2020 results. We have announced the quarterly results yesterday and data is already uploaded to the stock exchanges and the detailed analysis is also available on our website.

To highlight the Q2 performance, you would have noticed that the operating profit quarter-on-quarter there is a jump of 16.02%, which is mainly on account of the interest income which has grown at a rate of 12.19% and the fee-based income which has grown at a rate of 38.69% as a result the total income was up by 17.21%.

The net profit during the quarter is down by 5.32%. It was at 111.86 Crores during September 2018 which is now at 105.91 Crores i.e., above 100 Crores and for the six months period, net profit was at 275.10 Crores which is now at 281.33 Crores, with a marginal growth of 2.27%.

As far as the advances are concerned, there is a 7% growth in terminal advances but what has happened is that we have exited IBPC of around 4500 Crores big ticket advances, as a result, the terminal numbers is only 7%. But majority of this has happened during the last week of September, as a result of which, the terminal number growth is muted at 7%, but if you look at the average advances growth, it is at 12%, and most important thing that has happened during this quarter which we have been aspiring since last two, three quarters is that our focused attention on the retail and mid corporate advances.

The retail advances i.e., below 5 Crores, which constituted 43.71% of our total advances as of September 2018, has gone up to 45.98% as of September 2019. Here we have clocked a growth rate of 16.31%. Going forward, we are aiming to have this portfolio at around 50% of our total loan book.

Secondly, the mid corporates i.e. 5 Crores to 100 Crores which constituted 27.4% of our total exposure i.e., the loan book, has gone up to 28.39% and year-on-year growth under this sector is 11.21%. Corporate advances with the ticket size of 100 Crores and above, was constituting, 28.39% now it is at 25.22%. So there is degrowth to the extent of 5.28%. We are aiming for retail advances of 50%, mid corporates at 30% which is presently at 28.39% and going forward we aspire to contain the corporate advances at a level of 20%, which is presently at 25.22%.

The satisfactory note is that, there is good growth in the retail advances as well as the mid corporate advances. Of course, the growth sectors were the residential or the housing advances, which has grown at a rate of 33.44%, agricultural gold loans have grown at a rate of 10.76%, agricultural ancillary activities have clocked growth of 12.07%, MSME service sector has grown at a rate of 10.88%, personal loans that is especially to the salaried class people have grown at a rate of 30.83%. So that is on the advances front.

As far as the asset quality and slippage are concerned, there is a gross slippage of 530.95 Crores during the current year as against 526.04 Crores during the previous quarter. Of course, the upgradation is to an extent of 374.21 Crores and of that upgradation, the recovery is 145.68 Crores and technical write-off, by providing 100%, is 228.53 Crores. As a result, our gross NPA number was 2594.27, which was at 2437.53 Crores during the June 2019 and percentage wise it is at 4.78%.

Here one of the major accounts which slipped to NPA during the current quarter is from export sector, with an exposure of about 101 Crores. We have all reasons to believe that this is a temporary aberration and in all probability this account is going to be upgraded during the current month itself. The efforts are on and the property is being disposed off. I am confident this account gets upgraded and going forward no much stress is seen of course, we are closely watching what is happening in the NBFC, DHFL as well as the Religare accounts wherein, in DHFL we have an exposure of about 168 Crores and in Religare about 68 Crores, all put together around 236 Crores, which is already continuing under the SMA-II category. Here ICA is already signed and under both the accounts interest is serviced up to June quarter. It all depends on how the resolution is going to happen. If resolution happens, this account will continue to be standard otherwise we have to give the applicable treatment as per the IRAC norms.

The net NPA is at 3.48% as against 3.33% as of June 2019 and during the current quarter we have given a little more attention for provisioning. In September 2018 quarter, we had a provision of 168.69 Crores, whereas, that has increased to 291.45 crore. On account of increased provisioning, provision coverage ratio has also improved to 59.19% as against 57.49% for the corresponding previous year. Going forward, most probably by FY2020 we will be having a provision coverage ratio of 60% plus. Cost to income ratio is at 48.80% which was at 50.13% for the year ended March 2019 and our capital adequacy ratio is at 12.64% before accounting for the first half-year net profit of 281.33 Crores and if that is also accounted, the capital adequacy ratio is comfortable at 13.20%.

There is an observation, the yield on advances during last September 2018 was at 9.4% which, during the current quarter, has improved to 9.69%. So, for the full half-year it is at 9.50% as against 9.34% of the last year, resulting in an improvement in the yield on advances. The cost of deposits which was at 5.99% as of September 2018 has now increased to 6.17%. This increase appears to be a one-off event because we had launched a 451 days' deposit scheme. Under that scheme, we have been able to mobilise about 3500 Crores of deposits at a rate of 7.5%, so mainly on account of this there is a slight surge in the cost of deposit. This is going to moderate in the ensuing quarters because there is a healthy growth of CASA which is at 27.41% and this high cost 451 days' deposit is also getting repaid as well as getting repriced. So most probably cost of deposit is going to get moderated.

Yield on advances is showing increasing trend, so with that, the spread as well as the net interest margin is likely to improve in the ensuing quarters. NIM is at 2.82% as against 2.91% about a year back and ROA is at 0.53% and return on equity at 7.12%.

As far as our transformation journey is concerned, it is moving in full swing and the digital journey especially the sanctioning of our retail advances is being taken up through our Digital Centre of Excellence (DCoE), wherein the digitalized loans sanction for housing as well as the personal loan is now complete. We have already implemented the digital loan sanction in two of our regions i.e. Bengaluru and Hyderabad and most probably by this month end we will be rolling this across India.

Simultaneously, my DCoE team is also focusing on sanction of MSME loans through digital platform. The product is almost ready and we will be testing the product during this November and December. By December end, most probably in few regions we should be able to launch this product also. So, this is on the expected line. Similarly, the digital sanction of auto loans is also at the final stage. We will be in a position to launch it very shortly. The tab banking is also being introduced in our Bank for digital sanction of loans and our sales officers will be going ahead with the tab banking and we are also going to introduce the tab banking for SB and current accounts most probably during this current quarter itself.

The transformation exercise, which I used to call it as centered around technology and we are making the best use of the technology for improved customer experience. Another important thing is that digital transactions, which were at 80% as of June 2019 have now further improved to 82% plus and only 18% of the customer transactions are happening through the branches and the customers have already been effectively on-boarded for the digital transactions. So that would help in improving our staff efficiency, as a result, there will be a significant improvement in turnover per staff as well as operating profit per staff.

So, these are few highlights of Q2 result and I am pleased to take your questions now-one by one. Over to 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 Ayushi Mohta from CD Equisearch. Please go ahead.

**Ayushi Mohta:** Good morning Sir. How strong is your noninvestment grade exposure of around 3500 Crores?

**Mahabaleshwara MS:** May I know the slide no. which you are referring to?

**Ayushi Mohta:** Sir, slide number 18?

**Mahabaleshwara MS:** Yes. That is depending on the external rating wise?

**Ayushi Mohta:** Yes Sir, BB and below?

**Mahabaleshwara MS:** BB and below category, it is clarified there itself. In BB category we have 90 accounts with an exposure of 1555 Crores of that 109 Crores is NPA, rest of the accounts are standard and they are very much performing. Similarly under B category, out of 793 Crores, 85 Crores is already NPA and rest of the accounts, there is no stress. In C category, there is one account which is already NPA. Under the D category, out of 1124 Crores, 606 Crores is NPA and rest all are standard and regular, that means interest installment is serviced even up to September.

- Ayushi Mohta:** Sir, but which corporates are in D category which you are not recognizing, in which you expect recoveries?
- Mahabaleshwara MS:** As I said, in D category there are 20 NPA accounts and the rest of the accounts are standard and regular assets. Even though they are in D category external rating, in some of these accounts the internal rating is better than the external rating but they continue to be under D category based on external rating, but asset quality is good.
- Ayushi Mohta:** So, can you tell which corporates are in D category?
- Mahabaleshwara MS:** In this there are not much of the big corporates. For example, one is Grandhi Theatres. Reliance Home with an exposure of around 20 Crores and Kandagiri Spinning Mills etc., these are all the small accounts.
- Ayushi Mohta:** Sir, even last year in D category you had an exposure of around 850 Crores with provision of 500 Crores?
- Mahabaleshwara MS:** Yes, 852 Crores was the position as of September 2018. At that time, we had a net NPA of around 500 Crores. Now, the exposure is at 1124 Crores, so this exposure has increased by around 400 Crores whereas the NPA has increased by about 106 Crores.
- Ayushi Mohta:** Sir, but recovery was expected then your D category exposure should have reduced by around 350 Crores?
- Mahabaleshwara MS:** As long as there is no asset pressure, the slippage pressure, either it is in B or C, some of these advances are really high yielding, so we are keeping a close watch on the performance of these accounts.
- Ayushi Mohta:** Sir, how comfortable is the bank in lending to infra and commercial real estate?
- Mahabaleshwara MS:** Commercial real estate we are not going in a big way. Both infrastructure as well as the commercial real estate are not that preferred areas. As I already mentioned, we are consolidating our position in residential housing, wherein the growth rate is 33.44%. Otherwise, there is some good growth in the assets backed lending i.e. the mortgage loans. Also, the agricultural gold loans are growing in double-digit and MSME, especially service sector has recorded a growth of 10.88% but there is good opportunity for us to lend under the MSME, on a selective basis.
- Ayushi Mohta:** But Sir in infra and commercial real estate that is around?
- Mahabaleshwara MS:** Infra sector?
- Ayushi Mohta:** Yes Sir, infrastructure that is 5.22% and commercial real estate that is 7.63% of your gross advances?
- Mahabaleshwara MS:** In infrastructure we have an exposure of around 5.22%. In fact, in infrastructure exposure there is a degrowth to an extent of 23.56%. In this category, out of the total infrastructure exposure of 2828 Crores, NPA is 131 Crores i.e., 4.63%. Our total exposure in infrastructure itself is 5.22% of our total advances and year-on-year there is a degrowth to an extent of 23.56%.
- Ayushi Mohta:** Sir, commercial real estate, how much of your combined exposure is to AAA?
- Mahabaleshwara MS:** Right now, I do not have it. We will forward it. I will let you know.
- Ayushi Mohta:** What is your combined exposure to say top three borrowers in commercial real estate and infra?

**Mahabaleshwara MS:** We will furnish this through email.

**Ayushi Mohta:** Sir, how much of this incremental lending is to new borrowers?

**Mahabaleshwara MS:** New borrowers, do you want the entire advances portfolio or only the real estate?

**Ayushi Mohta:** Sir, only the infra and real estate?

**Mahabaleshwara MS:** Infra and real estate, we will furnish it later through email.

**Ayushi Mohta:** Sir, how much was your slippage upgrade and technical written offs during the current quarter?

**Mahabaleshwara MS:** In technical write offs there is no question of upgradation. It is recoveries. We have recovered 18.41 Crores during the current quarter and 8.37 Crores in the previous quarter i.e., June 2019.

**Ayushi Mohta:** Sir, when you were talking about the Infra and commercial real estate, in your loan book last year the combined exposure to the sector has gone up by almost 50%, so you said about a degrowth, but there was actually a growth of 50%.

**Mahabaleshwara MS:** Yes, infrastructure there is de-growth. In real estate we have two sectors, one is the real estate i.e. housing and another is the commercial. In the housing sector, there is a growth of 33.44% and in the commercial sector there is a growth of 34.42%. So overall the real estate, housing and commercial put together, has a growth of 33.78%. Infrastructure there is degrowth, whereas real estate, housing and commercial put together is growth. We will provide the bifurcated figures and the top three AAA rated exposure separately through email.

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

**Bhavik Shah:** Good morning. Sir, firstly I wanted to know in how many accounts have we signed ICA during the current quarter?

**Mahabaleshwara MS:** In total we have five accounts under ICA i.e., Dewan Housing Finance Corporation, Religare Fininvest, Reliance Home Finance, Sintex Industry and Reliance Commercial Finance. The Dewan and Religare Group are continuing as standard whereas, Sintex and Reliance Commercial are NPA.

**Bhavik Shah:** Okay. Sir, what would be the quantum of your standard in Religare and Dewan put together?

**Mahabaleshwara MS:** Religare and Dewan is 235.31 Crores which are continuing as standard assets in our books as of today and Sintex and Reliance Commercial put together 231.65 Crores which are treated as nonperforming assets.

**Bhavik Shah:** Sir this Religare and Dewan do they reside in SMA-II?

**Mahabaleshwara MS:** Yes, it is under SMA-II.

**Bhavik Shah:** Sir, what would be our SMA-II as of this quarter end?

**Mahabaleshwara MS:** SMA-II we have 588.37 Crores including Religare and DHFL amounting to 236 Crores. So out of 588.37 Crores of SMA-II, 236 Crores of SMA is belonging to these two groups. Balance is 352 Crores.

**Bhavik Shah:** Sir, again referring to the external rating slide, our BB below book standard exposure increased by 9% or 10% quarter-on-quarter so I just wanted to understand what all accounts slipped into BB below category during the quarter?

**Mahabaleshwara MS:** I did not get your question.

**Bhavik Shah:** Sir, BB below book, it increased quarter-on-quarter?

**Mahabaleshwara MS:** Yes, there Dewan and Sintex have downgraded to D category.

**Bhavik Shah:** Both happened this quarter?

**Mahabaleshwara MS:** Yes.

**Bhavik Shah:** But they must have been downgraded to D from BB or D category, right?

**Mahabaleshwara MS:** Yes.

**Bhavik Shah:** But Sir, if I look at overall BBB+ plus B plus C plus D it has increased quarter-on-quarter, so I just wanted to understand part of it must be because of the loan growth but as another part, I just wanted to understand like what accounts got downgraded from AAA, AA, to BB?

**Mahabaleshwara MS:** Earlier AAA was at 6537, now it is at 5365 and we have exited some of the big-ticket advances. Few of these accounts are falling under these categories as well, even though they were highly rated, the yield on advances was less.

**Bhavik Shah:** Sir, with respect to your fee income growth, there was a very strong quarter-on-quarter, can I get some granular data in the sense, which fee income stream contributed to this and how sustainable is it?

**Mahabaleshwara MS:** This is mainly from the advances portfolio as well as our TPP portfolio i.e., third-party products. So, in the advances portfolio there is a very robust growth in retail as well as the mid corporates this is why we have been able to get around 38.6% growth and I am optimistic of about 20% plus growth going forward under the fee income.

**Bhavik Shah:** Sir, can I get a breakup of fee income from advance portfolio and TPP portfolio quarter-on-quarter or year-on-year?

**Mahabaleshwara MS:** During September 2019, Services and processing charges, was at 46.90 Crores as compared to 25.77 Crores about a year back, a growth of around 81%. In incidental charges (IC), there is no growth. It was at 48.93 Crores, and now it is at 44.62 Crores. The profit on sale on investment was at 6.93 Crores about a year back and now it is at 39.32 Crores. Then inland and forex guarantee commission last year was at 20.42 Crores now it is at 26.26 Crores. Locker rent was at 4.62 Crores and now it is at 3.92 Crores. Recovery from written off accounts last year was 8.75 Crores and now it is 18.41 Crores. Then the insurance commission i.e., the third-party product sales last year was 8.03 Crores now it is 15.50 Crores and in exchange profit there is a slight degrowth from 6.78 Crores to 5.54 Crores. So, these are the major areas of the fee-based income.

**Bhavik Shah:** Sir, last question from my side, our Religare Finvest and Religare Housing they are standard, I just wanted an update on what is happening with the accounts?

**Mahabaleshwara MS:** For Religare, the ICA is signed. Now the creditors have to take a call on the resolution plan, it is already referred to the overseeing committee. Once that is approved within the due date of NPA, then only it will be eligible to be continued as a standard asset otherwise it will slip to NPA. It all depends on how effective the resolution happens in that particular account. It is already figured in our SMA-II.

**Bhavik Shah:** Sir, is there any change of management in this?

- Mahabaleshwara MS:** In the Religare Group change of management has already happened. We are reasonably optimistic about its resolution.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from IDFC Securities Limited. Please go ahead.
- Mahrukh Adajania:** Good morning Sir. I had a couple of questions; firstly, when you were mentioning about the NPAs or the slippages this quarter, you mentioned Reliance Commercial. What about Reliance Home? Is there an NPL too?
- Mahabaleshwara MS:** Reliance Home is standard.
- Mahrukh Adajania:** So, Reliance Home is standard but not Reliance Commercial?
- Mahabaleshwara MS:** Reliance Commercial is NPA; and in the Reliance Home interest is serviced.
- Mahrukh Adajania:** Sir, my other question was basically you said that in BB the portfolio increased partly because of Sintex, but that is already NPA, correct?
- Mahabaleshwara MS:** Yes. That is already NPA.
- Mahrukh Adajania:** Okay, but that is still shown as part of your BB portfolio. Sir, what will be the total NPAs of the BB portfolio?
- Mahabaleshwara MS:** The total size of BB portfolio is 1554.97 Crores as against 1687.94 Crores a year back. Now out of this, 109.65 Crores is under NPA.
- Mahrukh Adajania:** Got it Sir. My last question was about these ICAs that once the intercreditor agreement is signed is there any standstill whatsoever on the recognition of an account as NPA or that follows the normal course of 90 days?
- Mahabaleshwara MS:** Under the new guidance of RBI which was issued in June 2019, there is no such clause. The account classification is purely in terms of IRAC norms.
- Mahrukh Adajania:** Got it. Sir, Religare Finvest and all are servicing their debts or is it bullet repayment?
- Mahabaleshwara MS:** They have serviced up to June. So now before the account is being classified as NPA if ICA resolution plan is implemented then it will not be continued as NPA. So, implementation of ICA plan is very crucial, within a stipulated timeline.
- Mahrukh Adajania:** So, basically if by September it is not implemented and payment has not made its NPA?
- Mahabaleshwara MS:** No, September is already over and it is continuing as standard. So, if by October, ICA is not implemented then they should service the July interest.
- Mahrukh Adajania:** Only the overseeing committee has been formed right now, so implementation may not happen by October, is that a fair assumption?
- Mahabaleshwara MS:** No, not only overseeing committee is formed but resolution plan is also received. It is under active examination of the OC as well as individual lenders. So, individual lenders are in the process of giving their consent. A comprehensive view will be taken by the OC. It is based on fast track. The very fact that, they have serviced their interest as of June and there is a change in the management are all the indications that we can reasonably hope for a decent resolution.



- Mahrukh Adajania:** Sir, apart from Reliance Home and Reliance Commercial, do you have any other exposure to the ADAG Group?
- Mahabaleshwara MS:** No. Only these two.
- Mahrukh Adajania:** Thank you so much. That was very useful.
- Moderator:** Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital Advisors LLP. Please go ahead.
- Prasheel Shah:** I would like to know the slippages for the quarter?
- Mahabaleshwara MS:** In this quarter the gross slippage was 530.95 Crores and the upgradation was 374.21 Crores, of that recovery was 145.68 Crores and technical write off by providing full provision is 228.53 Crores.
- Prasheel Shah:** Where are these slippages coming from, retail corporate?
- Mahabaleshwara MS:** See large industries and large services 205.62 Crores, MSME 135.06 Crores, agriculture 128.77 Crores. These are the major slippages.
- Prasheel Shah:** Thank you. That is, it.
- Moderator:** Thank you. The next question is from the line of Sudhir Mahajan, an Individual Investor. Please go ahead.
- Sudhir Mahajan:** Good morning Sir. Congratulations for the good result. I just want to ask you one thing, in this BB category of your portfolio there are four borrowers, out of that 109 Crores, was Sintex one of this 109 Crores?
- Mahabaleshwara MS:** No, Sintex is in D category. In D category, we have recognised 13 accounts with 606 Crores.. In BB category the biggest ticket size is 13.21 Crores,
- Sudhir Mahajan:** The 4 borrowers and total NPA is 109 Crores.
- Mahabaleshwara MS:** The biggest exposure is 55.42 Crores in BB category. Of course, this is one of the export clients from Northern India. So, the second biggest exposure is in the industrial i.e., steel sector with 26.14 Crores. Third is a rice exporter with 21.46 Crores.
- Sudhir Mahajan:** In D category, there is 606 Crores. Could you give us a small breakup on that? You have given a breakup of 236 Crores, I am talking about the balance?
- Mahabaleshwara MS:** In D category, one big NPA account is Reliance Commercial and then the latest addition one export account with an exposure of 101 Crores. IL&FS is also there with 75 Crores of exposure.
- Sudhir Mahajan:** Sintex is showing here?
- Mahabaleshwara MS:** Sintex is there, which is 94.78 Crores, rest are below 50 Crores.
- Sudhir Mahajan:** Any recoveries in some of these accounts?
- Mahabaleshwara MS:** As I said, the account that recently slipped, I am very optimistic of its upgradation with 100.95 Crores exposure. In Sintex also ICA is signed, but it will continue as NPA even after the resolution plan is implemented, but if the entire arrears are serviced it will get upgraded.
- Sudhir Mahajan:** Sir, what is the provision made for Sintex and for this exporter?

**Mahabaleshwara MS:** Sintex is under substandard category with 15% provision. The export account which is the recent NPA, there we have 100% security coverage and 15% provision is held.

**Sudhir Mahajan:** One last question, one of the things is there is a shortage of capital if we look at long-term for growth, anything being done on this front?

**Mahabaleshwara MS:** Of course. It is a continuous process. But the latest capital adequacy ratio is at 12.64% which is excluding the net profit of the first six months, and if the net profit of these six months is included, the CRER would be at 13.20%. So, we are one of the well capitalized banks as of now. Going forward as and when it is required, we will definitely approach the market with our capital raising plan. As of now it looks like the capital is adequate.

**Sudhir Mahajan:** Thank you Sir. Have a nice day.

**Moderator:** Thank you. The next question is from the line of Prashant Kumar from Sunidhi Securities & Finance Limited. Please go ahead.

**Prashant Kumar:** Thanks for the opportunity. I just want one breakup of provisions. What is the provision under NPA and investment depreciation that you have and provision for ADAG?

**Mahabaleshwara MS:** Please repeat.

**Prashant Kumar:** Break up of provision, I just require.

**Mahabaleshwara MS:** Provision for nonperforming advances is 519.77 Crores. Total provision for standard advances are 252.33 Crores.

**Prashant Kumar:** For investment provision?

**Mahabaleshwara MS:** Investment provision held is at 141.80 Crores.

**Prashant Kumar:** Thank you Sir.

**Moderator:** Thank you very much. The next question is from the line of Kisley Upadhyay from Abakkus Asset Manager LLP. Please go ahead.

**Kisley Upadhyay:** Sir, yield on advances and interest spread has actually improved both QoQ and YoY, I am on slide 21. Even though the NIM has actually declined, would it be right to assume that advances to investment ratio have gone up that would be the reason for this?

**Mahabaleshwara MS:** That is one of the reasons because NIM also considers the interest income from investments. Our ID ratio has slightly gone up. The CD ratio is at 78%. Another reason is slight increase in the cost of deposits compared to the previous month.

**Kisley Upadhyay:** So, the increase in cost of deposit would be captured in the interest spread, right?

**Mahabaleshwara MS:** Yes. The interest spread has improved to 3.52%, which was at 3.4%.

**Kisley Upadhyay:** If you could mention the reason for increase in advances to investment ratio or advances to total asset ratio, whichever way we look at it, what would you cite Sir?

**Mahabaleshwara MS:** This is a conscious step that we have taken. In the past, we had an IBPC portfolio of 4500 Crores. Of course, they are all rated advances but at a slightly lesser yield. Now we have exited that portfolio that is why our corporate exposure has also come down, and that fund is getting redeployed to the retail as

well as the mid corporate advances. So whatever balance liquidity surplus is left, that is parked in the investment that is a temporary phenomenon, going forward when the advances especially the retail and mid corporate further picks up, so this NIM is bound to improve.

**Kisley Upadhyay:** Sir, one bookkeeping question excluding large corporates, could you mention the gross slippage number?

**Mahabaleshwara MS:** Out of 530.95 Crores of gross slippage the major slippage...

**Kisley Upadhyay:** I will just rephrase the question. I just wanted to know...

**Mahabaleshwara MS:** I got your question. The major one is export account with 101 Crores and another is Sintex, with 95 Crores, another major slippage is a textile exporter with 55 Crores and rest are all below 25 Crores.

**Kisley Upadhyay:** This figure, YoY was?

**Mahabaleshwara MS:** YoY right now I do not have.

**Kisley Upadhyay:** Sir, just one more, total gross slippages, last YoY was how much?

**Mahabaleshwara MS:** It was 368.13 Crores as of September 2018 and 526.02 Crores as of June 2019 and now 530.95 Crores as of September 2019.

**Kisley Upadhyay:** Thank you. Thank you for repeating. Thanks a lot. All the best.

**Moderator:** Thank you. The next question is from the line of Gaurav Jani from Centrum Broking Limited. Please go ahead.

**Gaurav Jani:** Thank you for taking my question. Firstly, targeted loan list that you mentioned would we expect to reach there by FY2020 or FY2021, the retail, SME, corporate, in the mix of 50%, 30% and 20%?

**Mahabaleshwara MS:** That may not happen by 2020, by 2021 it should happen, but there is an increasing trend. We have been tracking this number for quite a long period. The increase is on the expected lines.

**Gaurav Jani:** Sir, my concern is on the exposure on the loan growth, any guidance you want to give on loan growth for FY2020 because first two quarters have been really weak for us? What sort of a loan growth do we see for FY2020 and then FY2021?

**Mahabaleshwara MS:** I do not agree that it is weak. It was a mid course correction done deliberately because we wanted to exit from the corporate sector or minimize that. Earlier the corporate i.e, above 100 Crores was 32% to 33%. Now it has come down to 25.22%. So, what we are focusing is the retail and mid corporate and there we have grown at a rate of 12.03% and 10.51% respectively. So, this growth in the first six months is a very significant growth. Now we are in a position to further consolidate it. So with that, we are definitely optimistic about the originally projected growth rate of 17% for the entire advances portfolio as such. But I am confident that the overall advances will definitely be growing at above 14% for the entire year.

**Gaurav Jani:** Clearly the mix is shifting in the positive...

**Mahabaleshwara MS:** My focus is more on the retail and mid corporate where I am getting good yield on advances.

- Gaurav Jani:** Absolutely, I take your point but the only concern is because if we are moving from corporate to retail SME which is positive, on a blended basis it results in a sort of a flattish trend so I was just concerned about the blended growth for FY2020 at least?
- Mahabaleshwara MS:** I got your point, but please note that during these six months itself terminal to terminal there is 7% growth and average advances growth was 12%. Since we have already taken care of the corporate portfolio and going strong in the retail and mid corporate, I am optimistic. Because, things are happening at the field level. And we are making effective use of the opportunity that has come on our way on amalgamation of the nationalized banks. That is a huge opportunity for banks like us, especially through takeover routes.
- Gaurav Jani:** If I may put it the other way, from here on, the book of the large macro what sort of growth or degrowth you see from here on, do you think it will be flat from here on?
- Mahabaleshwara MS:** For the corporate it would be flat, but for retail and mid corporate it would be growing at a pretty robust pace.
- Gaurav Jani:** This is helpful Sir. Secondly, on the commercial real estate book, that has actually grown very sharply by 60%-odd YoY, so what is the sort of a comfort do you derive from this book Sir?
- Mahabaleshwara MS:** In this commercial real estate, majority of them are coming under the lease and encash sector, so, that is the rental discount, so rent is the major source of recovery and solid collateral of many times even 150% plus.
- Gaurav Jani:** LTV you will be sort of 150%?
- Mahabaleshwara MS:** LTV is more than 100%. That is 50%. Generally, LTV...
- Gaurav Jani:** I got it. Sir lastly the BB & below book, the total show about 830 and we have restructured at 450 totaling to about 1300 Crores book, what will be the sort of provisions on this book on a blended basis?
- Mahabaleshwara MS:** For restructured amounting 485.77 Crores, we have made provision at 90 Crores. That is 18.56% provision.
- Gaurav Jani:** Does the BB and below category totals to 830 which is NPA? what is the provisioning on that?
- Mahabaleshwara MS:** The NPA provision is depending on the category of the NPA.
- Gaurav Jani:** So, what would be the blended provisioning, if I can have that number?
- Mahabaleshwara MS:** I do not have that number right now. We will furnish it later.
- Gaurav Jani:** Lastly, what will be the net SR number as of now, net of provisions?
- Mahabaleshwara MS:** SR portfolio size is 401 Crores. For the SR we have made provision of 47 Crores.
- Gaurav Jani:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Pranav Gupta from Aditya Birla Sunlife Insurance. Please go ahead.
- Pranav Gupta:** Good morning. Most of my questions have already been answered. Just two data keeping questions; if you can help us with the number of RWA for this quarter and what are the total interest reversals for this quarter?

**Mahabaleshwara MS:** First is RWA and second one is?

**Pranav Gupta:** Interest reversal?

**Mahabaleshwara MS:** Risk weight assets as of September 2018 was at 47618 Crores and now it is at 50277 Crores.

**Pranav Gupta:** 50277 and interest reversal?

**Mahabaleshwara MS:** Yes. Interest reversal, we do not have right now. We will furnish.

**Pranav Gupta:** Thank you.

**Mahabaleshwara MS:** Any other participants, if you want any other granular details please be kind enough to send an email to us. Immediately we will be able to provide that. With that shall we conclude?

**Moderator:** That was the last question. I will now hand over the conference to Mr. Aalok Shah for closing comments.

**Aalok Shah:** Thank you Sir for this detailed explanatory call. Thank you all for joining on the call. You may disconnect your lines. Have a great day. Thank you.

**Mahabaleshwara MS:** Thanks to all of you. Have a good day.

**Moderator:** Thank you very much. On behalf of Monarch Network Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.