



# “Karnataka Bank Limited Q2 FY-22 Earnings Conference Call”

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**MANAGEMENT:** **MR. MAHABALESHWARA MS – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER**  
**MR. BALACHANDRA YV – CHIEF OPERATING OFFICER**  
**MR. GOKULDAS PAI – CHIEF BUSINESS OFFICER**  
**MR. MURALIDHAR K RAO – CHIEF FINANCIAL OFFICER**

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Karnataka Bank Limited Q2 FY22 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, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aalok Shah from Monarch Network Capital Limited. Thank you and over to you sir.

**Aalok Shah:** Thanks Melissa. Good afternoon to all, on behalf of Monarch Network Capital Limited we welcome you for Karnataka Bank Q2 FY22 Earnings Concall. From the Bank side, we have wit

h us the entire senior management team, represented by the MD and CEO – Mr. Mahabaleshwara M.S., COO – Mr. Balachandra Y V, CFO sir – Mr. Muralidhar Krishna Rao and CBO – Mr. Gokuldas Pai, without taking much of your time, I would request Mahabaleshwara sir for his initial comment, post which we can take up the Q&A session. Thank you and over to you sir.

**Mahabaleshwara M S:** Thank you Aalok. Good morning and good afternoon to all of you. Thanks for your keen interest in the concall of Karnataka Bank, wherein we will be highlighting the Q2 FY22 performance. Friends in spite of COVID-19 pandemic adverse effect on the economy, of course which continued during this second quarter also, your Bank has been able to post strong numbers. And to begin with let me highlight the two important areas where in the past also especially the investors and analysts like you had expressed concern and let me address those two points that is mainly in the credit area, the credit growth and the second one is the asset quality including the stress on the restructured advances portfolio.

So, let me take up for these two issues first, and then I will highlight the result related numbers. As far as the credit growth number is concerned, I’m happy that we are back on track as there is 5.17% growth over the sequential quarter, that is as of June 21 we had ₹51,791.21 crores advances, now it is ₹54,467.94 crore. On year-on-year basis, the important sectors, which

provided the growth, the gold loans we grew by 27.69% which is Y-o-Y, high rated NBFC we grew by 15.67%, MSMEs 14.82% Y-o-Y growth rate, loans to contractors 8.76% and of course pharma sector grew by 36.77%.

Going forward, I'm very confident about the growth momentum. So, the growth number may touch double digit by third quarter and we should be able to reach our projected growth rate of around +15% by Mar 22. So, this is mainly on account of the fact that the business leads and its conversion is going strong and gaining momentum also.

As far as the asset quality is concerned let me touch upon this issue by highlighting the NPA numbers, stress numbers and the restructured advances portfolio. As far as the NPA numbers that is the gross NPA is concerned, as of March 21 our gross NPA was 4.91%, as of June 21, it moderated to 4.82% and as of September 21, it further moderated to 4.50%. Not only in percent, but even in terms of absolute number also it was at ₹2588.41 crores, as of March 21, as of June it came down to ₹2549.06 crores. Now further moderated to ₹2,501.12 crores and a similar trend is also observed in net NPA. It was at 3.18% as of March 21, then came to 3% as of June 21, now it is below 3% that is 2.84% and in absolute numbers also it was ₹1642.10 crores as of March 21, ₹1552.95 crores as of June 21 and ₹1546.11 crores as of September 21. And the NPA addition during this quarter is 445.36 crores which is the gross addition whereas, the reduction is ₹493.29 crores. So, the reduction is more than the addition of this reduction of ₹493.29 crores, ₹309.04 crores came in the form of actual recovery whereas the other write off, technical write off and other things was ₹184.25 crores. So, thus our slippage ratio stood at 0.88% for this quarter. For the June quarter it was 0.83% and for the last entire year it was 2.44%. So, going by this trend, I'm confident that our yearly slippage ratio would be less than the last year slippage ratio of 2.44%.

Now, as far as the stress advances is concerned, let me touch upon mainly the SMA-2 and SMA-1. SMA-2 portfolio consisted of ₹2,245.75 crores as of June 21 and it constituted 4.24% of the GBC and now, it has further come down to ₹1,599.73 crores as of September 21 and now it constitutes 2.87% of the GBC. So, that means from June 21 quarter to September 21 quarter that is

the sequential quarter, there is a reduction of 28.77% in the SMA-2 portfolio. The similar trend is also observed in SMA-1. I had ₹2,608.13 crores in the SMA-1 portfolio as of June 21 and that constituted around 4.92% of our GBC So, the SMA-1 it has further decreased to ₹1921 crores as of September 21 and it constituted 3.45% So, ₹2,608.13 crores reduced to ₹1921 crores there is a reduction by 26.35% and if you add both SMA-2 and SMA-1 our June portfolio size was ₹4853.88, now it is at ₹3520.73 crores Thus, there is a gross reduction of 27.47%. And in the SMA-2 portfolio I said it is ₹1599.73 crores here above 5 crores constitute ₹606.11 crore. Last time I have shared with you that we are closely monitoring this portfolio with a digital dashboard on a day to day basis.

Another area in the asset quality is mainly pertaining to the restructured advances. I'm sure that all of you would be interested to know more granular details about this particular portfolio. As of March 21, our restructured advances stood at ₹1,738.41 crores and as of June we added ₹946.64 crores to this portfolio and it stood at ₹2685.05 crores and June and September quarters are the quarter where we have implemented restructuring 1.0 and 2.0 of the RBI guideline. So, that means, in the September quarter, we have restructured ₹1,668.44 crores of advances. So, as a result at present a cumulative number of restructured advances, it stands at ₹4,353.49 crores, this constitutes 7.82% of the GBC. And out of this ₹4353.49 crores, the NPA is ₹360.49 crores, SMA-2 is ₹401.43 crores and SMA-1 ₹167.79 crores.

The most important initiative that the management has taken up recently is, I have created a separate special monitoring cell for this restructured advances, it is named as Restructured Advances Management cell (RAM cell) and this particular cell is headed by an executive and on day to day basis, we will be closely monitoring this restructured advances portfolio because during this third quarter i.e., restructuring has to be given effect latest by 31st December 21. So, we may have another ₹500 to ₹600 crores to be restructured during this quarter. So, all it could be around ₹4800 crores of the restructured portfolio. So, that means around 8% to 9% of our GBC. So, keeping that in mind, we thought it fit to have a focused attention for this restructured advances portfolio. So, a separate cell to monitor the restructured advances is already put in place and that is why I'm seeing some favorable numbers as

far as restructured advances are concerned. And of course, all other quarterly numbers are already shared. We have already uploaded our detailed analysis in our website, data is also shared with the stock exchanges and I have already sent a detailed email to all the shareholders. Nevertheless let me briefly touch upon the important numbers. As you all know net profit has gone up by 5.17% during this quarter from ₹119.44 crores to ₹125.61 and operating profit if you compare the previous sequential quarter it was ₹384.83 crores now at ₹389.59 crores, interest income also marginally improved compared to the sequential quarter ₹1523.50 crores during June 21, this quarter ₹1554.28 crores, interest expenses we have been able to reduce it from ₹948.71 crores as of June 21, now, it is ₹917.18 crores this is mainly because of reduction in the cost of deposit.

NII which was at ₹574.79 crores of June 21, now, it is at ₹637.10 crore and other income also of course, trading profit we have not been able to gain much in the trading portfolio. However in the miscellaneous other income there is a jump of around 35.33% Y-o-Y, but compared to June quarter, there is a reduction. June quarter we had ₹181.18 crores miscellaneous income, whereas this quarter it is ₹164.37 crores. Of course, total income remained almost at the same level. Compared to the previous quarter it was ₹1730.02 crores and now ₹1725.15 crores. Expenditure also almost on the same line, Previous quarter it was ₹1345.19 crores, now ₹1335.56 crores. However, as far as the NIM is concerned, as of June 21, it was at 2.98% and March 21 it was at 2.91% and now, it is at 3.31%. So, here after I'm confident that we will be able to maintain the NIM at a comfortable level of above 3% because it is already at 3.31%. ROA has also improved from 0.49% as of June 21 to 0.57%, ROE from 6.34% to 7.41% sequentially, gross NPA, net NPA all those things the details I have already explained.

Credit cost is at 0.24% for this particular quarter. For June quarter, we had 0.45%. For the entire year it was at 2.37%. So, going forward also it will not breach the March 21 number. Provision coverage ratio it is our endeavor to maintain the PCR at above 70%, so, now it is at 71.75%, cost to income ratio is at 51.79% it may hover at around the same level and CRAR, Tier I is 11.98% and Tier II is 2.50% that is 14.48% is our capital to risk weighted assets ratio and this is excluding the current years profit. If we include the

current year's profit, it will be 14.94% and if we include the full standard advances provision, then the CRAR will be 15.47%.

As far as CASA is concerned, it is now at 30.88%, June 21 it was 30.82% and March end it was at 31.49%. Of course on year-on-year basis, our CASA grew by 11.65%. And as far as yield on advances is concerned, it was at 9.05% as of March 21, came down to 8.93 as of June 21. And now it is at 8.91% mainly because of the stiff market competition for the quality assets. And the cost of deposit also has shown very good improvement from 5.29% as of March 21 to 4.82% as of June and now at 4.64%. So, as a result our spread has improved to 4.27% from 3.76% as of March 21 and 4.11% as of June level. So, going forward, we will continue to focus on the growth management, especially credit, CASA and Stress Management will continue to engage our attention, especially in three fields i.e., the NPA management, SMA management and the Restructured Advances management. Capital augmentation is also engaging our attention. The committee of Directors of the Board, is entrusted with that responsibility, they have already met to take stock of the present situation and the future strategies all those things are discussed and we will be taking it further depending on the market and other conditions. The digital initiatives under KBL Vikaas 2.0 basically under the concept of KBL NxT, it is progressing as per our expectation. A lot of digital onboarding of customers both for the liability as well as the asset portfolio is happening. And as a result, efficiency enhancement in all the areas is being observed.

I have an important announcement i.e., important development in the Bank to be shared with you all, which of course, we have already shared with the stock exchange. With the approval of the Reserve Bank of India, the term of the present Chairman, that is the Part Time Chairman (PTC) of our Bank, Mr. P Jayarama Bhat, will be completing his present term by 13th of November 2021. And the Board has identified new PTC and also sent its recommendation to the RBI. We have received the RBI approval for appointment of new PTC that is Mr. Pradeep Kumar Panja. He has been an Independent Director and with our Board for the last more than a year. You all know that he worked as MD & CEO of the State Bank of Travancore initially for about a year period thereafter with the State Bank of India as

Managing Director (Corporate Finance Division) at the Board level for about three years. So, this is one of the best value addition at the top level and he will be assuming the charge effective from 14th of November 2021.

So, with these preliminary remarks, now, the forum is open for any further clarification. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Sir, one particular point which I wanted to investigate further was on your restructured book. So, while we have sort of been at the same level of NPA, but restructure advances are going up a lot. So, first of all wanted to understand, in case you wouldn't have gone for restructuring of these accounts, how much of that would have flown into your NPAs and secondly, how do you look this, you have guided for 500 crore increase. But what's the trend going to be March 22 and beyond like, do you think that resolutions are going to happen here or how do you think this shaping up in the future?

**Mahabaleshwara M S::** Sarvesh, what is your second question I didn't get it?

**Sarvesh Gupta:** I wanted to understand that how this restructure book is going to shape up as per you beyond December.

**Mahabaleshwara M S::** Yes, that is first question and second question?

**Sarvesh Gupta:** Sir, that's the first question only. I'll ask my second question after this?

**Mahabaleshwara M S::** Okay. So, your first question is, had there not been restructuring, what would have been the NPA. Sarvesh, we need to understand that this restructuring is the Reserve Bank of India guidelines implementation under the restructuring 1.0 and 2.0, mainly to keep the economy going forward. And this is also a helping hand extended to the needy customers. So, need based restructuring is done. And all these accounts, I'm very confident that going forward also they will continue to be a performing asset. At the time of restructuring also almost all these accounts were performing. It was mainly on account of external factors. But as a banker, we need to be very, very

conservative and even if the restructure let us say it fails up to say 10% then we already have a provision of more than ₹690 crores. So, even if there is let's say 10% slippage, so for ₹435 crores I already have a standard advances provision of ₹690 crores. So, all the required steps have already been initiated. Even if there is an aberration in future, this is already insulated in terms of providing, by making upfront provision. So, we will be able to take care of the needs of the customer going forward also by fully protecting the health of this particular portfolio.

**Sarvesh Gupta:** Understood sir. And wanted to understand the trend beyond December, how do you look at this book like you say 500 crores can be added in this quarter and beyond December how is it going to work out?

**Mahabaleshwara M S:** Where 500 crores is added to which portfolio?

**Sarvesh Gupta:** To restructured in this quarter is what your guidance was?

**Mahabaleshwara M S:** Beyond December there is no restructure program at all, restructure program last day is 31st December 21 as per the present regulator guidelines.

**Sarvesh Gupta:** Understood. Sir, do you envisage significant reductions coming in this, remaining in the standard book or how do you feel that NPA level could be high from this book?

**Mahabaleshwara M S:** NPA is moderating, not only moderating this number is also coming down both in terms of percentage as well as in terms of absolute number. This trend is going to continue. I am optimistic that by March 22, our GNPA could be around 4% and the NNPA could be around 2.5%. It is going to be further reduced, because we don't have any big ticket advances causing concern. So, even during the current quarter also, even in the fresh addition to NPA the large advances that has added the ticket size was ₹35 crores and that also got regularized subsequently. In fact very next day it got regularized because there was an element of out of order. So, we treated it as NPA and that got regularized on the very next day. So, that means the larger ticket advances becoming NPA is almost NIL as we have addressed that issue and even the SMA-2 also, I had one account of above ₹35 crores which was a



SMA-2 and now that particular account got upgraded to SMA-1. So, things are moving in the right direction.

**Sarvesh Gupta:** Understood sir. Sir on your CASA side we have seen a lot of banks gaining CASA percentage, but in your case it has been sort of stable. So, any thoughts around that?

**Mahabaleshwara M S:** CASA as I said, of course it is at 30.88% and we are aiming for around 33% by March 22. So, here the most important thing is, SB growth is there but current account growth is not as per the expectation. This is mainly on account of closure of some multiple current accounts held by the borrower with the different banks as per the recent RBI guidelines. The working capital limits if they had in one Bank, they cannot have the current account in another Bank. So, as a result in our Bank, around 17,000 current accounts we had to close and on account of this there is a negative growth in the current account in the earlier months. Once the system is stabilized, going forward there will be a robust growth in the curve also. And that would help in improving our CASA portfolio.

**Moderator:** Thank you. We have the next question from the line of Chinmay Bafna from Anzen Insurance. Please go ahead.

**Chinmay Bafna:** Sir, I have five to six questions if you don't mind I'll take some time of yours.

**Mahabaleshwara M S:** Then I should have a concall with you separately Chinmay. But keep in mind the time constraints and please be brief.

**Chinmay Bafna:** Yes, sir I'll be very brief. Sir, many banks have shown interest to diverse taken subsidiaries associate companies looking at the current market scenario where insurance companies are witnessing attractive valuations, what is Karnataka Bank strategy around with exposure to Universal Sompo?

**Mahabaleshwara M S:** As far as the Universal Sompo exposure is concerned we have about 6% stake in that company and for the time being we will continue to hold that and if at all any revision is required, I will take it up with my Board and we will take an appropriate decision which is most favorable to the Bank as well as its shareholders.

**Chinmay Bafna:** Okay. And income from treasury operations are slightly fall in this quarter and interest rates are expected to increase in the coming future and treasury investment income is going to stay under stress, your mark to market portfolio of the Bank is almost 24% of total investment, with duration over three years. So, the compounding effect will happen, because that how do you intend to manage the risk of MTM loss on this?

**Mahabaleshwara M S:** My CFO will take this question.

**Muralidhar Krishna Rao:** Majority of our holdings are in HTM category. So, the depreciation in market value impact as far as the accounting is concerned, it may not be there. Our AFS portfolio depreciation is not very material. So, balance sheet impact may not be there, portfolio impact will be there, but, definitely this portfolio we are building up as the interest rate is increasing we are building up and definitely we foresee that if not this year, next year this correction of the interest rate will happen and there will be opportunity.

**Chinmay Bafna:** And also sir with this growth of 15% and going forward, there were two, three plans of hike issues over the last year I saw one in 2020 and then again in 2021 of a QIP and South Indian Bank has been able to raise a smaller amount around ₹250 crores. So, are we likely to see the QIP commissioning?

**Mahabaleshwara M S:** For QIP our shareholders have already permitted. By evaluating the situation a lot many things have already lined in the most advantageous position. At the right time and the right price we will be in a position to take it forward. I have already highlighted the capital adequacy ratio. So, as far as the CAR is concerned, it is at a comfortable level and this is one of the factors which we have to factor in.

**Chinmay Bafna:** Alright, sir. And sir on the FinTech companies are causing a huge disruption right now in the finance industry. This could result in the consolidation of the banking sector as well. And how does KBL management see this space in the future and also, do we have any exposure to crypto currency accounts like coin DCX or any of these players holding money with our Bank?

**Mahabaleshwara M S:** Chinmay I really appreciate this question, because this is the future. So, a lot of collaborations we have already started during our KBL Vikaas

transformation journey, under the concept what I said KBL NxT, so each and every thing about the FinTech, about the startups, how they are going to propel our growth dreams, how we are going to collaborate with them, because no Bank can afford to treat them as a competitor. This is a new disruption that is happening and your Bank has taken note of it. And we have made a lot many initiatives in those areas. As I said our initially we have started with the underwriting of the loans in a digital platform and we are also looking into the CASA related things. Neo Bank concept is also being thoroughly examined. All those things are being taken care of, that is why I have kept our transformation cell headed by a GM totally focused on this particular aspect. Thus, the Bank wants to emerge as the digital Bank of future. That will sum up our overall focus on this particular digital area.

**Chinmay Bafna:** And sir one more question so do we have any exposure?

**Mahabaleshwara M S:** Currency exposure you said we don't have.

**Chinmay Bafna:** Okay. So, we are not opening accounts for any one of these wallet companies now?

**Mahabaleshwara M S:** No.

**Chinmay Bafna:** And sir one more thing, most of the midsize and large private sector banks are increasing the focus on treasury and trading currencies rate products and so on and so forth. To manage the impact of reducing net interest margins. How does KBL look at this and do we have any plans to increase our treasury operations and trading in currency and FX derivatives and so on and so forth?

**Mahabaleshwara M S:** Yes, both of it is engaging our attention. In fact, my Board has already permitted me to shift my integrated treasury to Mumbai. That we will be doing very shortly. As of now integrated treasury is at Mangalore only. And other areas wherever there is good scope for earning money on day to day basis, we will also be focusing on that.

**Chinmay Bafna:** Okay. Sir, and sir last question, Universal Sompo your subsidiary is in the process of launching a product for enhanced deposit insurance. So, right now DICGC covers ₹5 lakh of regular deposit insurance. This has been planned to

increase as an insurance product to ₹30 or ₹35 lakh and the cost of this would be quite nominal only five bps to 7.5 bps. So, do we see any sort of, interest from the Bank side on this, do you think it would help especially when you're looking to increase your CASA on the retail front?

**Mahabaleshwara M S:** Let me correct your question, Universal Sompo General Insurance Company Limited is not the subsidiary of Karnataka Bank. We are promoter shareholders of Universal Sompo General Insurance Company. And my shareholding as of now stands at 6% only. That is the first, clarification. The second one is, whatever the product that they launch, since we are the channel partners, we also evaluate it internally. And then we give our consent for the sale of that product in our Bank. So, our concerned department is evaluating this new product. Once they share that particular product with us, we will evaluate and then we will take an appropriate administrative decision.

**Chinmay Bafna:** Okay. But do you see a large potential in this, in general for the banking sector and for Karnataka Bank also?

**Mahabaleshwara M S:** Only after evaluation, I can answer this question Chinmay. I may not be able to answer now.

**Chinmay Bafna:** And sir, I am sorry I am asking again, if we want to set up a larger call or a one to one meeting, do we request Monarch or we reach out to your investment team?

**Mahabaleshwara M S:** Absolutely no problem, because whenever we are interacting with any investor or analyst, we share all the details, whatever is already available in the public domain. So, you can have interaction directly with me or with the COO, or with the CFO, whoever it may be. You can send an email and we will respond for that.

**Moderator:** Thank you. We have the next question from the line of Sher Surya from PMS Vantage Holdings. Please go ahead.

**Sher Surya:** Going forward, what task Bank is contemplating to diversify into the insurance sector. Any divestment to move into the insurance sector.

**Mahabaleshwara M S:** I didn't get your question properly. Mr. Surya will you please, repeat that?

**Sher Surya:** You are telling that you have 6% holding in insurance venture.

**Mahabaleshwara M S:** Correct, General Insurance Company.

**Sher Surya:** What is the future plan for increasing the exposure to the sector?

**Mahabaleshwara M S:** We have to evaluate, if there are any plans for further capital augmentation and there are only limited shareholders in that company. I said in the beginning itself, all those decisions we have to take finally, keeping in mind the Bank's interest and the shareholders' interest. So, whenever such option comes, we will evaluate and respond at that time.

**Moderator:** Thank you. We have the next question from the line of Jai Mundra from B&K Securities. Please go ahead.

**Jai Mundra:** Two question sir, one is on restructuring number. So, it looks like in the last call you had mentioned that restructuring is going to be unchanged, the guidance is going to be unchanged at around 5% to 6% of loans that was at the time of the 1Q call and now, that number has gone up to 8% and there is some more pipeline also. So, is that the number has surprised you or how should one make out of this number because that number has clearly gone up too much in a very short period of time?

**Mahabaleshwara M S:** Under restructuring, resolution framework 1.0 and resolution framework 2.0, so we had estimated around ₹2500 crores addition under this particular sector. So, since we already had about ₹1738 crores as of March 21 and now, it is at ₹4353 crores. So, addition may go up by another ₹400 to ₹500 crores. So, in total around 9% of our loan book could be restructured one. Number two, many of the customers with whom we have interacted and who have opted for restructuring, they had opted it as a precautionary step. And they have also avoided the GECL and all such facilities. And if you remember in the past, when the moratorium was extended, about 51% of our customers by value had opted for moratorium, and at the end of the day, there was a delinquency up to around 1% to 1.5%. So, here also I foresee as a very precautionary sort of step opted by our customers. So, that is fine even

though it is at around 9% I'm not much worried about this particular portfolio. Nevertheless, as I said, it definitely deserves our topmost attention, that is why we have put in place those steps of effective monitoring of that particular portfolio. And added to that, this particular restructured advances portfolio, we have already provided at around 13% + as a provision. So, even under the worst case scenario, let us say 10% slippage even if it is there, it will not affect our future profitability and other things.

**Jai Mundra:** I understood the math sir, what I am saying is, has this number surprised you negatively?

**Mahabaleshwara M S:** No, not at all.

**Jai Mundra:** Okay. So, you are not negatively surprised by the restructuring going from 5% to 9%?

**Mahabaleshwara M S:** See, it is again dependent on the external factor. So, customers call is the final, if they are eligible for restructuring facility as per the Reserve Bank of India guidelines, then in such cases we have to provide. So, there is no question of denial, but we in all these cases what we did is, before taking up that particular proposal for the restructuring, its suitability as per the Reserve Bank of India guidelines and also the viability of the restructure and all such things have been duly taken care of. One of the prerequisites for availing the GECL-4 was restructuring. So, some of the customers opted under that particular category as well.

**Jai Mundra:** So, for GECL 4 there was some preconditions for restructuring. So, they got themselves restructured and got the GECL?

**Mahabaleshwara M S:** For certain period.

**Jai Mundra:** Understood. And last question, sir is appointment of Mr. P. Pradeep Kumar. So, this is a significant move. But if you can correct the understanding, so Karnataka Bank for a very long time had been only internal people who have joined Karnataka Bank, like you and the previous Chairman, who were full time let us say Karnataka Bank employee, they were MD and Chairman, and this is sort of a new change, that an external person is coming in as a

Chairman of the Bank. Not does this suggest if you can throw some light there?

**Mahabaleshwara M S:** No, in the past also, we had three Chairman from other banks. If I remember correctly, we had one Chairman by name, Mr. Raghuram. He served the Bank for about five years period, he was serving in one of the banks in the overseas. And we had another Chairman, who was the external person, Mr. U V Bhat, he served as the Chairman for about two years period. Then we had another Chairman called Mr. Sundar Rao. He was our Chairman for about five years. He was from Syndicate Bank. So, that tradition is there. So, it is basically the suitability, so we don't think that, person should only from inside or from outside. So, depending on the requirement under changes, we have our people as the PTC.

**Jai Mundra:** Understood. And just one data keeping questions sir, if you can share GECL outstanding, that will be very helpful. Thank you.

**Mahabaleshwara M S:** GECL outstanding, we will let you know later Mr. Jai. I will give you the exact number, maybe around +2200 crores . We will let you know later.

**Jai Mundra:** Sure, sir. And this includes GECL 4 right, which is the divestment to the GECL, 1.0?

**Mahabaleshwara M S:** Yes, 1, 2, 3, 4 everything is included.

**Jai Mundra:** No, so, I asking definition wise the 4 is the one additional investment to the GECL one guys.

**Mahabaleshwara M S:** Correct.

**Moderator:** Thank you sir. We have the next question from the line of Yashwant Kumar an Investor. Please go ahead.

**Yashwant Kumar:** I have two questions. So, one, why is that we are not taking aggressive provisioning to make our PCR more than 80%, so that is one thing. And then I'm just reading out that a business strategy that we have mentioned in the investor presentation. So, it says minimum space, maximum business and we are planning to build a 2.4 lakhs square feet office. So, how should

somebody read this, having said we are looking for a funding to raise our book?

**Mahabaleshwara M S:** The first question is PCR. Mr. Yashwant Kumar, you may be aware of the fact that this PCR is basically dependent on the provision requirement as per the IRAC norms, Earlier, all along we were making provision as per the IRAC norms and no accelerated provision was being made. So, now what is happening is, since last about three years, we have started making provision over and above the IRAC norms that is why our PCR is now about 70%. So, your suggestion is good, as and when our profitability improves, definitely we will aim for 80% PCR.

Second one is regarding the minimum space under maximum utility that we have projected maximum business and at the branch level and the regional office level etc. Wherever we have the leased premises, we have cut short the office space requirement. This is mainly from the point of view of the fact that now the digital transactions has reached a level of around +91%. So, that being the case, customer traffic to the branches has considerably reduced. So, we thought that this is the right time to rationalize the space at the branches. So, that is the reason why we adopted this principle of minimum space and maximum business. Your question is why you are proposing to build a centenary building at Mangalore. Now, almost all the activities are being run through the back offices. So, we are strengthening the back offices, strengthening our risk management team, strengthening our compliance team and almost all the sanctions are centralized. So, that has helped us in improving the efficiency and also in improving the quality on a sustainable basis. So, even though customer interaction for business requirement is less, the back office requirement is very much there. So, keeping in mind, we have planned for this and that is also to commemorate our centenary year that is by 2023-24. As far as the cost aspect, we will be very, very considerate. Having a back office at very costly places like Mumbai or place like Mangalore where the land value is cheap, it makes a huge difference. We will be very much considerate, only the need based requirement will be taken care of. This is also thoroughly discussed by my Board and they have given lot of suggestions. We will be taking decision in due course in this regard as well.



**Yashwant Kumar:** Okay. And one last question with respect to operating profits per employee and the branch. So, there is a downtrend towards if you go to the operating profits, so can have an explanation on that please?

**Mahabaleshwara M S:** You will be in a better position to understand that, because operating profit from core business we have been able to do well. Operating profit also includes the trading profit. Trading profit for the first half of the last year was ₹510.55 crores this half year it is only ₹31.84 crores. That explains the entire difference. Trading profit again depends on the market conditions/external factors. We had a very good opportunity and this time that opportunity is not there. But we will be focusing more on the core business. Then we will be able to make good of that going forward.

**Yashwant Kumar:** Okay. And looking at the e-commerce transactions again from past two years there have been a rise in e-commerce transactions across the banks. But in Karnataka Bank I see that the e-commerce transactions have gone down, so any particular reason for it?

**Mahabaleshwara M S:** My CBO will take that question Mr. Gokuldas.

**Gokuldas Pai:** In fact, our digital transactions have gone up and now it is at 91.6%. Whereas as far as the e-commerce, yes it has gone down both by volume and amount. And it's mainly because our UPI transactions have seen a marginal improvement. So, that maybe the reason. There may be a slight migration from the e-commerce to the UPI based transaction. But anyhow, we will again get it thoroughly examined.

**Yashwant Kumar:** Pretty much we're talking about the digitalized banks. So, when we talk about digitalizing, then definitely e-commerce is one such a parameter to consider. So, that's a futuristic way of thinking though. Thanks.

**Moderator:** Thank you. We have the next question from the line of Siji Philip from Axis Securities. Please go ahead.

**Siji Philip:** Sir just one question from my side, within the restructure book could you give a sectoral color as in what segments are constituting the structured book?

**Mahabaleshwara M S:** Yes, agriculture around 4.77% of the portfolio is restructured, commercial real estate 0.02% of the commercial real estate book is restructured, housing around 11.42%, so that means the individuals have opted for the restructuring to the maximum extent, Infrastructure 3.22% of the loan book of that infrastructure is restructured and in the MSME around 11.2% of that portfolio and other personal loans, including education loans and vehicle loans all put together around 14.71% of that portfolio, whereas the large industries and services it is around 10.26% of that portfolio. So, overall it is 7.83% of the GBC.

**Moderator:** Thank you. We have the next question from the line of Pooja Ahuja from Monarch Network Capital Limited. Please go ahead.

**Pooja Ahuja:** Sir, most of my questions have been answered thanks for the opportunity. Just wanted to understand about while you did mention that the impact was due to the RBI guideline on the CASA. So, how has the growth been in your savings account book?

**Mahabaleshwara M S:** I'm not able to get your question, will you please repeat?

**Pooja Ahuja:** The CASA has remained stable sort of sequentially and you attribute that to the closure of some current accounts. So, how much has been the growth in the savings account?

**Mahabaleshwara M S:** Savings account growth year-on-year it is 13.68%. Savings account there is a robust growth, current accounts there is a temporary aberration.

**Pooja Ahuja:** And how has been the growth sequentially?

**Mahabaleshwara M S:** Sequentially my SB balance was ₹19,233 crores and now that is ₹19,668.25 crore. Year-on-year it is ₹17,300.84 crore to ₹19,668.25 crore.

**Moderator:** Thank you. We have the next question from the line of Krishna Srinivas, an Investor. Please go ahead.

**Krishna Srinivas:** I have just one question in terms of, you had mentioned that you have been empaneled by the government. So, have you seen any kind of fund inflows into any deposits from any government agency till now?

**Mahabaleshwara M S:** Mr. Krishna Srinivas it is not empanelment by the government, it is the agency arrangement. We have been designated as “Agency Bank” by the Reserve Bank of India. With that, we can approach the government departments and we can get the government business. So, that action has already initiated. We have approached many State Governments, State Government departments and a few of the Central Government department also and things are moving and in due course, we will be able to reap the benefit out of this agency arrangement.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I would like to hand the floor back to Mr. Shah for closing comments. Please go ahead.

**Aalok Shah:** Thank you, Mahabaleshwara sir and the entire team for taking off the time and taking us through the journey of Q2 results and how things look forward. To the participants, thank you all for joining in. Mahabaleshwara sir you have any closing comments?

**Mahabaleshwara M S:** Yes, thank you very much. And a lot of people have evinced interest and it is our collective responsibility to come up to the expectation of each of you. We are really trying hard and you can see very good all round growth even during this very trying condition of the Q2 because there was very severe impact of the COVID, almost for the first two months. In spite of that we have been able to provide this type of consistent and forward looking sort of business numbers and I am confident that going forward we will be able to build on these numbers. Thank you one and all.

**Moderator:** Thank you members of the management and Mr. Shah. Ladies and gentlemen on behalf of Monarch Network Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.