Edited Transcript of

"Karnataka Bank Limited Q2 FY 2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY 2024 Earnings Conference Call hosted by Karnataka Bank. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star and then zero on your touch tone phone. Please note that this conference is being recorded.

I now handover the conference to Mr. Srikrishnan H, MD and CEO of the Karnataka Bank. Thank you, and over to you, sir.

Srikrishnan H.: Thank you, Rayo, and good evening, everyone. A warm welcome to our Q2 H1 FY '24 Earnings Call. It has been an excellent quarter from our perspective. The following is a quick update. As all of you are aware, first and foremost, we have been able to raise capital, although it is not reflected in the September 30, 2023 quarterly results and half-yearly results, because the allotment process, has now been completed and the money has been received. This preferential allotment was made to 5 institutional investors.

So that is a good news overall, although those numbers have not been factored into our metrics in the results announced today as well as into our quarterly investor presentation that has been uploaded on the website.

So with that as a background, I want to also report to all of you that we have had an all-time high FY '24 half-year profit, PAT, INR700.96 crores as against INR525.81 crores for the previous corresponding half year in September '22. And this is an increase of over 33.31%. As regard to this quarter, we have made a profit of INR330.26 crores, and there is a decrease compared to the previous quarter. That is basically due to our treasury depreciation. And all of you are aware about a lot of volatility that is going on as far as the treasury debt market is concerned. However, our positions are insulated, and we want to also ensure that it is completely protected as far as the bank is concerned.

On the positive part, gross advances, which is a key metric for the bank has grown by 9.27% on an annualized basis. We closed September '23 with INR 66,935.98 crores. And this is a significant increase from the last quarter as well as the corresponding quarter of last year or even the March end-year quarter. So this is a very good sign in terms of growth in the advances book. And all of our balance sheet growth is in advances led growth.

On the deposit side, we have grown compared to the market, which is growing about 10% to 12%, we have grown about 10 % on an annualized basis. Our total deposit stands at INR89,532 crores. And this is again on average grown closer to 10%. We're also happy to report that the business turnover of the bank is INR1,54,954 crores, and this is a very important milestone for the Karnataka Bank.

Our CD ratio has been continuously improving. When we started this financial year, we were somewhere in the 69%. And as we closed out the September quarter, we have gone up to 73%. That is really a very clear reflection of the stretch that we are having as far as advances led growth is concerned. As I informed earlier about the capital raise, with the capital raise and the consequent liquidity owing to one more churn, which is the Tier 2 capital call option, we believe that we are well positioned for further growth in gross advances.

Now, as far as the deposit growth is concerned, I think we are well positioned in terms of the overall progress made during the quarter, because we have converted ourselves into a sales organization. Now, we have a liability sales team, which has been deployed all over the country, Karnataka as well as outside of Karnataka.

We have currently 250 sales officers who have been pulled out of the branches to be dedicated to sales and 400-odd feet on street who have been recruited from our subsidiary company as well as some agencies who are DSA or DSTs. So with this, an all-round growth in terms of both CASA as well as retail assets is something that we are preparing ourselves for. And this is the kind of capacity building that we will cater to when it comes to an increase in volumes on both sides.

Now on the health of the portfolio, as far as our stressed assets are concerned, there's a net reduction of over 7 basis points on the net NPA. And compared to the same time last quarter, it has come down drastically from 1.72% to 1.36%. On the gross, despite the increase in the gross advances figure, the gross NPA has decreased.

And that is, again, because the slippages have come down and it is about 0.5% right now. The good news is about also Provision Coverage Ratio (PCR), which is maintained that as of the last quarter i.e., around 83%. But compared to last year, September '22 corresponding quarter, we have significantly improved that.

Core provisions remain at 62%. And here, again, it is pretty healthy when it is compared to the rest of the peer groups in the market. As far as our NII is concerned, we have grown our advances book and because of the interest rate relief which is happening, growth has not been much internally in the case of new advances, which in the range of about 2.45%.

But on the other side, I think we are well positioned to kind of grow our book, given the fact that the focus is more on retail, MSME and rural businesses. I will talk about the strategy of the bank in terms of what kind of asset acquisitions and how the liability part will also be catered to as I complete the rest of the other metrics.

ROE stands at 16.47% for the half year and ROA stands at 1.37%, well within the guidance that we have provided already. On the overall cost-to-income ratio, I had already mentioned in the last quarterly call that there would be a spurt because of certain investments that we are making.

For the quarter, it would show that we have crossed the 50% mark. But on an overall half-yearly basis, we are still at about 49.18%. We believe that as we grow our revenue and as we make sure that our income is accruing from these investments, in the following couple of quarters, we will bring it back to our original guidance of 47% to 50%.

Now cost of funds, the bank has got a very strong retail franchise. Now despite the pressure on the interest rates because there are a lot of other market players on the deposits, where there is a significant increase which is being provided.

But having said that, we do have some very, interesting offerings, which is bundled with salary, corporate payroll and also the flexible CASA, which is a sweep out product, all that put together, we believe that we are on the right track. The other 1 big opportunity that the bank is chasing is the government business. We are already empanelled for customs duty and GST collections, and we have gone live with it. We are in the last stages of going live with CBDT for direct and indirect taxpayers.

As far as the Karnataka government collections are concerned, we believe that we will become one of the top collection banks in Karnataka and otherwise, because our technology integration with Khajane, which is state treasury that has also been completed. I mentioned about the cost, which will also have a very positive impact in this quarter. Because we have received RBI approval for the exercise of the call option of INR400 crores for Tier 2, which is available for redemption on November 16, 2023.

So somewhere in this mid-course of this quarter, we are doing a churn whereby because of our comfortable CRAR position and the fact that the cost of this Tier 2 bond that we have raised is about 12% and its expenses. We believe that the INR400 crores retirement at 12% and augmenting that with further capital, which has been Tier 1 and also the strong liability franchise, we will be in a better position because we have no pressure on the CRAR part due to this.

There's also a second tranche, which is due for call option in February. And this is also a 12%. The quantum of that would be INR320 crores. As you are aware, we have approval from the Board for INR1,500 crores capital issue. And out of that INR800 crores preferential allotment has been completed. And we do have a follow-up round, which will definitely have to be done for INR700 crores to make us comfortable on the overall basis so that the next 18 to 24 months we are on the right trajectory as far as the growth is concerned.

The other 2 parts which are also very relevant for our discussion today is, one, the credit cost decreased by about 0.44% in the half year ended September '23 from 0.67% in the half year ended September '22.And there is also a reduction in the standard restructured advances, which at some point of time for a bank of our size was higher, but it's come down to INR2,214 crores. It has decreased from the June figure of INR2,534 crores.

So I believe that we have done a complete review of our position in the last one quarter. And this is the first quarter that I have completed in this bank in full, along with our Executive Director, Sekhar Rao, who also joined in February. And we believe that the bank is positioned right for growth.

One that capital for growth is something that we have achieved, and we'll continue on that path. The second is that in terms of creating a sales organization within the Karnataka Bank, which otherwise was non-existent. We have created a team of over 400 plus the 250 sales officers that I talked about. So we have feet on the street plus sales teams of about 650 deployed in the market for about a month already now.

So the productivity of this team will start kicking in by the end of this quarter. So we believe that we are on the right track in terms of customer acquisition. There is also a digital acquisition, which I talked about in the last call but that we have accelerated. One is a direct digital acquisition.

The second is a data-driven analytics based digital acquisition. Now what happens here is that self-onboarding and making sure that the customers are able to onboard into the bank with video or eKYC is something that has been enabled as far as the Karnataka Bank is concerned for most products on the loan side.

Likewise, even opening accounts on the liability side has also been enabled. In addition to that, we are working on the Analytics Centre of Excellence, which has been created in Bangalore, along with the technology and digital hubs that we have created. It's a 40,000 square feet of space that we have and almost 300 plus employees are there right now covering technology, digital and analytics.

In the analytics space, we have created the data lake and the data lake essentially provides various cuts of data based on transactional history of customers within each branch and giving the data back to the customer base for branches to do cross-sell and upsell. Example, let's say, that there is a customer of ours who is paying EMI, but has not availed the loan, we would be pushing a loan into them.

So this is something which is a data and a lead generation mechanism for digital as well as for the sales team targeting to acquire such customers. This is existing customers of the bank, ETB and the digital part of it will be new to bank customers (NTB).

So we are embarking on a digital first journey related to the overall data analytics as well as the social media impact that is getting created. On partnering with fintech and technology companies, we have already gone live with two core lending partners. And we are going live with a couple of more partnerships on the digital distribution side.

We have also launched during the quarter Doorstep Gold Banking, which is basically with a company called SahiBandhu. This is, again, fully digital in terms of the process and the gold loan will be delivered at the door steps. And this is a complete partnership with the BC arrangement with SahiBandhu, which is part of Manipal Technologies.

Now as far as the bank is concerned in terms of the target segments, the target segments that we had originally been chasing continues to be focused right now with about 570 branches in Karnataka and outside of Karnataka more than about 330 branches are there. And we want to kind of make sure that this is not just a regional story, but also a national story. With this in mind, we have been focusing a lot on retail.

The growth in advances, we have carefully kept it in a way where almost close to 50% of our loan book still remains to be in retail. This is something which is very granular, so that we do not have any chunky exposures and we do not have any associated risk related to that.

The balance of the growth, we have also deployed over 100 agricultural field officers into the market, who have been attached to agri focused or rural-focused branches. And this is not only to service the agri customers but also to acquire new customers based on the supply chain flows of each of those agri processing or farmer-based crop and non-crop based loans.

Now here, it is basically through the knowledge that has been acquired by this agricultural field officers, who are in a better position to serve the customer. And the Karnataka Bank is known for its exemplary and superior customer service at branches. We continue to do that for not only the agri, but also for the rest of the customer segment that we are having.

MSME is a big area. During the quarter, which is currently running, where we will be launching our new corporate website and making sure that there's a lot of these partnerships with MSME based portals for engagement as well as for life cycle management of couple of the MSME, not just merely lending to them, but also looking at what other requirements they are looking for from a banking or from an overall digital perspective.

So with this, I want to close out the commentary from the management side. Based on this, we have had a good quarter. There is just one clarity that I wanted to bring. There are some questions that have been asked from the bank that we uploaded the stock exchange notification and now, where the quarter ended Q2 FY '23. And Q2, why is there a reduction? There was an abnormal one time increase in profit as far as the bank was concerned in the quarter ended September '22, where we had one time recovery from a corporate client, MMTC in this case, where to the tune of almost like INR156 crores was the impact on the P&L.

So if you actually take out that abnormal part, we have grown from that corresponding quarter to more than 30%. So that's just the clarity that I wanted to bring to the investors upfront before any questions are asked because there have been some parts of the investor community, which have already called between the time that we uploaded and now.

And last but not least, we have also uploaded the quarterly investor presentation on our website. The link is available readily for you. So those of you who are on the call, you will be able to access this and also understand our commentary, both in terms of strategy, in terms of the milestones achieved as well as the road map for the future.

So with this, Rayo, I would like to close out on the commentary from the management side and pass it back to you for any questions that any of the participants would like to have. Thank you so much for your time, ladies and gentlemen.

So, Rayo, I just wanted to add that from our side, Sekhar Rao, who is Executive Director as well as the management team, the CFO and a few others are part of this call right now. And in case of any queries that anyone of them need to answer, they'll participate in the call along with me.

Moderator: The first question is from the line of Sushil Choksey from Indus Security Advisors.

Sushil Choksey Congratulations to team Karnataka with stable number, and you've already explained why there was a provision this year, and there was a write-back last year with MMTC. And let's come to the fund raise, it was a successful fund raiser for that INR800 crores and you're planning the INR700 crores. Any visibility whether you will do it now or you will do it a quarter later or you will spill over to next year?

Srikrishnan H.: Sir, we are very clear that we want to complete it before the financial year end, which is March. But, the way that we had exercised and we have gone through this whole exercise for the first tranche, it took us almost close to 70 to 90 days from the time that we started doing the rounds in June and completed it in September. So the same process we need to begin now. So the closure will happen hopefully the same time frame or maybe a lesser time frame this time because of the experience that the bank has had.

Secondly, we also believe that it is the right time to raise the money because one we have proved our credentials and second is that we have consistently delivered on the results for 2 quarters in the stretch. And we believe that we are rightly poised as we go forward. So this is kind of a tradition that we have established, and we believe that the investor interest will lead us to do this as early as possible.

Sushil Choksey: See you've articulated a lot of initiatives since Sekhar started his journey in Karnataka Bank and yourself from June 9, so February and June. Now both of you have spent almost over -- almost 5 months together. In the road map, which you have showcased over television or in the con call last time and even today, if I have to ask you what part of journey, have you been -- what percentage of journey would be considered as initiated and over, and what part would be left, percentage-wise? I'm just asking. I'm not asking a broader question.

Srikrishnan H.: Sure. There are 3 parts to our journey. One is building, operational and technology capacity. And that part, I would say that we are almost like 50% through because we know what to build for and what to build on top of what we have already. And for which we are waiting for certain capital to be raised, so that the growth capital that we have would be coming in handy. So I would say that we are about 50%, and we would be able to build on top of all the digital integration as well as the products that will directly acquire clients. That's step number one.

Step number 2 was that the branches were not sales oriented, and we have created a sales organization of over 600 people as I reported earlier. And this is something which includes training that we have invested them into. We have completed that and unleashed them into the market.

Now for them to perform, it will take another about 50 to 60 days to start contributing in a big way. So we believe that, again the first round of our deployment has already happened, and that would be again 50% of the deployment that we want, because over the next 2 quarters, which is the balance of this quarter and the next quarter, that's like by March, we believe that our target is to have about 1,000 feet on street on the ground. So that is the second part of the execution.

The third part is the strategic part, which is in terms of what lines of business we focus on, where we get the right kind of margins, and where do we make sure that we stay competitive. In this connection, how do we make sure that our product, process, people, and technology blend to deliver value to customers.

Here, we have recruited a Chief Product Officer for the bank. He is coming in, in less than a month's time right now. This is the first lateral hiring, which will be followed by at least 2, or 3 that we've already mentioned during our various investor calls.

So by the end of this financial year, including the lead times that they take, I think all the lateral leadership positions will be filled up, which would enable the bank to be more aggressive and more market benchmarks as well as the products are concerned. As far as the processes are concerned, there are at least 3 or 4 agencies who are working with us.

One is doing a process review for the entire credit policy, credit scoring, credit exposure management and also the branch to approval and back and forth. Now this is exactly to minimize how much of it can be digitized, how much of it can be turned around faster in order to get that. So this is one such example of a process improvisation and efficiency improvisation that we're working on.

Likewise, there is a lot of centralization projects, which we have taken up. We are centralizing trade processing. We are centralizing forex processing. We are centralizing clearing. We're removing a lot of the bandwidth from the branches to make them all sales oriented branches and creating the back offices in Mangalore.

And where we have a lot of space and the people. And we believe that with the use of our subsidiary company i.e., KSL. We would be able to kind of make sure that deployment of staff for data entry or for front-end sales is something that we'll be able to do it through the deployment from the subsidiary company.

So this chart will be a definition, Sushil, as to what are the various measures and in terms of percentage completion.

Sushil Choksey: If I have to sum up your answer, you have raised equity. You are enabling full technology stack for deployment for growth and human resource churning or training should be over by the current quarter. So the Q4 should start showing some benefits and fruits where Karnataka's growth as per what you have planned should be visible? Am I to sum it up, right?

Srikrishnan H.: I think you have summarized it perfectly.

Sushil Choksey: Now all these enablers, you may launch multiple products, whether it's housing, education, or MSME. Do you see which area you would grow from the current branches or centralized process, whatever you do? Or are you going to change mix because currently, I think Karnataka is almost 40% of our business, and there's pan India. Do you see any particular part from growth engine, which you would like to move towards?

Srikrishnan H.: The strength of the bank in terms of underwriting capabilities as well as our exposure management, etc, remains in retail, rural and MSME. And those 3 will continue. And we have actually got agri and also as part of the overall retail part, the reason being the size of the loans as defined by RBI.

So agri focused geographies would also include the agri. Now given this you are right about the fact that 40% of our business comes from Karnataka, but the fact is that we have less than 30% of our branches outside of Karnataka. So this is something that we believe will contribute and will kick in.

We would definitely want to see that there is a very fine kind of a distribution across all locations. We have just opened during the quarter one corporate finance branch, this is the third corporate finance branch in Chennai and that is in addition to the ones that already are there in Mumbai and Delhi.

So all this is a reflection of our focus in terms of whether it is emerging corporate, mid-sized corporates or even some large corporates that we'll be looking at, including the products that are associated alongside. So that kind of gives you a sense of the focus areas and how we will be able to grow.

Sushil Choksey: My last question is around, how do you see your tax on most, whether it's corporate or retail products in quarters to come by, 20% more efficient, 30% more efficient? And second thing on government business between Karnataka and the central government. How much do you see that as a contributing partner for the business?

Srikrishnan H.: So the idea is that we are actually implementing some technologies which are on the document workflow as well as making sure that all of this is directly related to efficiency measures. So we believe that there will be very quickly 20% to 30% jump in terms of the tax improvements and so on.

The other is from Karnataka and non-Karnataka government collection, all of the 3 agency bank licenses that we have, which is for GST, custom duty as well as for CBDT that is being certified right now are all India basis. They have got nothing to do with Karnataka.

Rest of it, whatever that we are doing integration with the treasury department and also working with a lot of government departments in Karnataka that is going to be Karnataka based. But sooner than later, once we have the experience in Karnataka, we will replicate the success in other states where we are.

Sushil Choksey: Sorry, I should have asked 1 last question that is, you are retiring 2 bond tranches in November and February. Would you replace with a cheaper bond or you will utilize your current profit plus equity.

Srikrishnan H.: Depending on the interest rate forecast at that point of time and also the fact that we will get re rate that soon for this quarterly results. We believe that if there is an opportunity to replace it with a cheaper Tier 2 bonds that is something the bank will consider.

Moderator: The next question is from Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, the first question is on the other income, which seems to have not grown this quarter. So there is a Q-o-Q fall as well as even Y-o-Y. So can you explain that, sir?

Srikrishnan H.: So essentially what has happened is that from an overall product coverage perspective, the bank has not invested a lot into the product. So I must be upfront about this in terms of what we have done. The second is that the fee income for the first quarter has a locker rental, which is also pretty high. And as an overall percentage of the first quarter and the second quarter because of the fact that the second quarter did not have a locker rental, you would see a little flat, although there is growth in some of the areas such as foreign exchange and so on.

Last but not the least is on the treasury side, where if, let's say, that there are some kinds of reversals that have happened due to the depreciation, etc. That part also comes in on the overall non-interest and other income category. So that kind of gives you an explanation. But yes, we will make sure that the growth is all round and is reflected in the following few quarters.

Sarvesh Gupta: Understood. And sir, this quarter, we have done a good sort of growth incomes of our advances. So what I mean but the impact is not visible on the NII line. Is it because of a change in the mix? Or you can throw some color on why it is not sort of leading us to improve our top line much faster?

Srikrishnan H.: Yes, you're right about the growth in advances from almost like INR59,872 crores to INR65,422 crores, so that's a significant jump, which has happened. But it is also that we have not repriced our assets. Our overall assets return number is 9.9% of our total reserve which is not bad at all from the overall market perspective.

I think there are 2 elements which have impacted this from an impact which is like, let's say, not being visible as you rightly said. One is that our cost of deposits where we do have some pressure, but we believe that the deposit rates went high would get kind of flat out as we go forward.

And second is that as we are focusing a lot on the advances side, which is more on the retail, agri and MSME, we believe that we will get the right kind of rates as we go forward for growth in the book. We believe that the growth in the book will be the same rate as we go into the following -- this quarter and the following quarter, which means that the growth part from where we were INR59,872 crores, we could close anywhere between INR72,000 crores or so in terms of the gross advances exit March '24.

So if we are able to maintain the growth and NII to a large extent, then the NIM also get managed, and we have managed the NIM so far. So 3.63% is our NIM right now. And our guidance has been 3.63% to 3.7%. So I think if we can maintain that, then in the book, which is grown and the churn that we are doing on Tier 2 and the fact that we have the Tier 1 capital followed up with the second round hopefully, I think the bank will be in a much better shape compared to what it was in the overall competition.

Sarvesh Gupta: Understood. So basically, you are still guiding for our loan book growth of around 20 odd percent for the full year, right?

Moderator: The next question is from the line of Prabal from AMBIT.

Prabal: Sir, you mentioned about having sales culture in the banks, which was a missing piece earlier. So how have you changed your incentive structure of branches and employees versus what used to be the practice earlier to drive this vision?

Srikrishnan H.: So what we have done is that we are rolling out a variable pay plan for the entire set of sales teams. This includes both the in-house sales offices as well as for the feet on street. And this is based on certain weightages that are given for different products that they acquire. And over a period of time, which is basically on a monthly basis and whatever retention that we need to do, because we also do not want any gaming to happen here where they bring the accounts and then we pay the commission and within 6 months, the customer closes and goes away. This game we are used to.

So we have all those control measures in place. And this variable pay plan is something that we will be rolling out to all the staff. We are just waiting for sales teams to be deployed and the training to be completed. So this quarter, we will be able to roll out that variable plan. If that gives you a sense of the fact that the sales team will work on a variable incentive based acquisition rather than just a fixed salary, which is not so exciting. So that is a way that we will approach this.

Prabal: And this would be over and above the IBA salary that they used to get. So even IT employees can if they do more sales, they can get incentive?

Srikrishnan H.: Yes, it will be over and above, and this will be performance-based.

Prabal: Okay. Sir, the second question would be the lateral leadership hiring that you are doing for the bank. So are these on a CTC basis or these are on the IBA model?

Srikrishnan H.: All the new leadership hires who are coming in are all on the CTC basis. And obviously, there are different scales within the bank, which you are aware. So all the executives who are there in the bank, in scale 4 and above are not part of the IBA mandate or the union mandates so-called. So this is something that we are very clear. We will make sure that there is a lot of equalization that happens between all the lateral hires and the existing executives of the bank. So that no disparity is being continued.

Prabal: And these people will be based out of Karnataka, Bangalore, head office or they will be depending on the verticals that they are serving?

Srikrishnan H.: The head office of the bank continues to be in Mangalore and all the operating departments, which are essentially including support plus credit risk monitoring, etc, all of that happens and the centralized processing that I talked about earlier, also will be based out of Mangalore. And in Bangalore, technology, digital, as well as some of the leadership lateral hires would be based out of Bangalore for better business reasons. And we believe that the model will work whereby the business leaders as well as the technology product teams will be based out of Bangalore and everyone else between the branches and Mangalore.

Prabal: Are there any tweaks on the asset repricing that you have undertaken because maybe making it more dynamic over a period of time because now we are going digital, so our asset repricing could also see an improvement?

Srikrishnan H.: We are already on EBLR plus margins. And this is something for various products which have already been defined. And also what happens is that this repricing, because EBLR based on market actually happens automatically. So we are probably one of those banks, who have done this on an ongoing basis in terms of the reset on the asset pricing.

As far as deposit pricing is concerned, it is purely an ALCO decision and purely based on accretion on the deposit side. We are not buying out deposits at a high cost at this juncture. We believe that the total overall cost of deposits which we have already seen is very much controllable. It is 5.25%.

And also the CASA mix, as you are aware, we are still in the 32 plus, or closer to 33 kind of percent of the overall deposit base. So which means that we are sitting pretty, we just to continue the same story rather than try anything maverick.

Prabal: All right. And sir, I just have one request. So two quarters back, the presentation that you used to upload, used to have a lot of data points across various sections, whether on business or whether it's on asset quality. I would just request that we can restore those data points because it does give us more clarity on how the trends are performing across various sections.

Srikrishnan H.: We heard you. In the last two quarters, the last quarter and this quarter, we have changed the investor presentation format to reflect more of the strategy milestone as well as to make sure that the growth part of the bank is reflected more. But noted down your point related to the fact that some data points you wanted. We'll be able to incorporate that from the next quarter. I'll note it down.

Moderator: The next question is from Darshan Deora from Indvest Group.

Darshan Deora: So I just wanted to understand that what are the changes we are making on the underwriting side given that the bank has in the past been plagued with bad asset quality? So what are the deficiencies that given your past experience at HDFC Bank, you're observing at Karnataka Bank, what changes are we making to improve upon that? And in the future, whenever the cycle turns, we are better positioned.

Srikrishnan H.: I want to just correct your statement a little bit in saying that we have had some problems on the quality of the assets. I do not think so, because it has been pretty healthy, I should say, in the past. But then there are there's always scope for improvement.

The second part is that, yes, as we kind of embark into new avenues for growth, which are particularly related to digital as well as client acquisition on the consumer side. So far, the bank has 95% of the loan book has been collateral-based. So that will be a move that will happen as we go forward, which will be cash flow-based and a little bit of unsecured that will happen on the retail side.

Of course, taking into account a lot of credit scoring mechanisms, etc., which is what we are trying to put in place. So we believe that the bank is appropriately place for taking the risk related to growth and asset book on various new asset classes, which otherwise the bank has not gone into in the past. And if that kind of gives you the sense.

Last, as I mentioned in the question to first caller that we are undertaking a huge process review exercise on the credit part, not only for credit TATs but also related to credit scoring mechanisms, also emanating from the co-lending and the digital kind of acquisition that we are doing.

So we believe that a combination of the credit scoring revenues for existing physical branch-led underwriting as well as for the digital underwriting would be put in place as we go forward in terms of the book loan.

Darshan Deora: Okay. And just as a follow-up to that and pardon my ignorance. Is most of the underwriting happening today at the branch? Or has it moved to a more of a centralized location especially for...

Srikrishnan H.: There's a structure that we have, where we have 5 regional credit processing centers, which will go up to 8. And we also empowered 38 clusters across the 900-plus odd branches, where they're empowered. So it is not just the branch level. So above the branch, there is a cluster level, above the cluster, there is regional processing center depending on the nature of the loan as well as the quantum. And then there is also for large corporate relationships or midsized corporate relationships at a head office level, which is a credit sanction centralized group.

So it's in multiple forms in terms of the authority metrics and delegation metrics. Just to clarify, no underwriting happens at the branch. So it is at central locations, either at the regional offices up to a certain value, 14 regional offices are there or at the regional credit hubs, which are at 5 locations. So it's a hub and spoke model. Credit proposals are sent by the branches.

Moderator: The next question is from Chintan Shah from ICICI Securities.

Chintan Shah: So firstly, I would just like to understand in terms margins trajectory. So like we are just trend this down for this quarter and the cost of deposits has been I think I would say, benign as compared to the competitors what they have been reporting. But this also seems to be on the back of lower deposit growth.

I think we have guided for roughly one trillion of deposits by FY '24. So are we on track to achieve that? And if yes, then how would the margin behave from here on for the remaining second half? And also, sir, on the deposit repricing, so are we done with the deposit repricing or we are yet to see some more pressure on the existing deposits?

Srikrishnan H.: So as far as the deposit acquisition is concerned, I'm making sure that all of whatever that we are growing is within a particular affordable annualized rate. Now that is something which we are consciously looking at. And actually speaking, 75% of our FDs have already got repriced. And it's only the balance, 25%, which hopefully, this quarter itself, we have a larger quantum that will come in, one. Secondly, as far as maintaining that healthy NIM, the part related to pricing of assets is something that I had already told to the earlier caller.

And I believe that in terms of, let's say, overall deposit acquisition and the rate, I'm making sure that the NIM is maintained. Sekhar has some point related to that. Sekhar, please.

Sekhar Rao: So just a couple of points. One is we haven't seen CASA migration to the extent that other banks have seen from CASA to TD. That's an important point that you will recognize. Second point is, if you see that we have, in fact, seeing 2 cycles of term deposit rates being brought down.

So, 90% of the term deposit book is less than INR 2 crores. So we have a large retail deposit in CASA franchise. We have held on to it. We haven't lately priced it. We have introduced a lot of interesting products in this space. The bundled salary proposition the sweeping account, the also pipeline for the government business.

So this will help us over the coming quarters to kind of grow our deposit book. And we are watching how the pricing is panning out closely.

Moderator: The next question is from Yogesh Bhatia from Sequent Investment.

Yogesh Bhatia: First of all, congratulations on the new initiatives and stable set of earnings. I just wanted to understand the other income, you said is lower for two reasons. One is the treasury impact and the second is lower fees that, they are much higher in Q1. Can you just quantify this, how much is the treasury impact?

Sekhar Rao: So I'll take this. So first is we collect all our locker rental in quarter one. so that was a significantly large around INR 41.31 crores of locker rentals. So that was collected in quarter one. And the treasury income difference is around to the extent between both quarters of INR59 crores. This includes depreciation changes.

And I mean depreciation on investment between the two quarters, that difference and the trading profit. So the impact there is around INR59 crores. So we made INR 61 crores in the quarter -- INR60 crores in the quarter one and around INR1 crores in Q2, which means the difference is INR59 crores.

So these two are the large contributing factors. So if you nullify I mean, negate this then our other income actually will show a good trajectory.

Yogesh Bhatia: Correct. Correct. Yes. Okay. I think that is the reason why that has led to a lower profitability. But if you adjust for that, then I think the numbers are very healthy.

Moderator: The next question is from the line of Kirtan Desai, who is an individual investor.

Kirtan Desai: My first question is, sir, earlier, we used to provide the provisional figures after the quarter ending, which we have stopped now. Can you just let us know the reason for the same?

Srikrishnan H.: Sir, this is actually a market practice, some do, some don't do. We were wanting to kind of not get into provisional number and also in order to make sure that there's no speculation on this. So this is exactly the reason that we do not want to do it. But from now, the predictability as far as our results are concerned, are something that we will guarantee you, because as we go forward, like any larger organization or bank, we will continue to do this directly on a quarter-on-quarter basis.

Kirtan Desai: Sir, my second question is now we have diluted our equity and raised the equity and bank is well capitalized now. So we always diluted equity by 15%. So are we able to grow our advances by more than 15% from now onwards, because last quarter advances grew by only 6% and half-yearly, it has grown by only 9%? So in my view, if we are not able to raise our advances like 15%, 20%, then the shareholders will only benefit while this raise in equity?

Srikrishnan H.: So on a YTD basis annualized, we are growing at 18%. So if that is an indication on how we will go forward. I have already given the guidance that we will continue to grow at the same rate as far as advances book is concerned. And yes, we are pretty much cognizant of the fact that Tier 1 raise has an impact overall from a retail shareholder perspective, but it is all for long-term growth.

You need to understand that as a bank, we need to raise continuously and make sure that we can service as well as make sure that we get some cap table institutional investors, who also are very important from our overall bank perspective. And that is a complete change to the bank that we have brought about in the last 100, 120 days.

Moderator: The next question is from Yaswanth Thippeswamy, who is an individual investor.

Yaswanth Thippeswamy: So good to see that the low-hanging fruits have been addressed. So like raising the capital to retire definitely at 12%. So that's a good sign. And first question that I have is with respect to the large corporate exposure from the advances. So we have seen there is an increase on that front. However, that has not resulted much in terms of CASA ratio. So you have or any ideas behind raising the large corporate advances?

Srikrishnan H.: No, large corporate advances, really speaking, we have not grown as much as what you are saying. The reason being that overall, our composition of the book still remains even at this enhanced advance number of INR65,422 crores is at 49%, which is still retail. So I do not think that we have grown that substantially in any large corporate exposure. That is one.

Secondly, your question related to CASA ratio and large corporate advances, these are two independent things. And our CASA ratio is essentially a percentage of the overall deposits, which are lying in the form of current and savings accounts. And we have always maintained it in range of 32% to 33% and which we believe is a very healthy number as we go forward. And which in an enhanced basis as we grow our liability book also. If we continue to be at the same, I think it is a very good sign from an overall profitability perspective.

Yaswanth Thippeswamy: Okay. And the second question that I have is with respect to the sales team that you were talking about. So is that the sales team is very towards MSME or corporate or retail, which would be the area that the sales team is going to focus?

Srikrishnan H.: So it is definitely not corporate. So it is predominantly retail and agri. MSME also forms a portion of that, not much, because MSME sales is to be done more from a banking perspective, understanding the business and which can be done better by our own relationship and account management teams. So our branches are well equipped to handle the MSMEs part and lead generation on MSMEs is something that the sales teams will do as well as the promotional activities that we are undertaking across all the branches by participating in MSME related industries, trade associations and so on will continue.

So predominantly, the deployment of our sales teams has been in the areas of retail liabilities and retail assets.

Yaswanth Thippeswamy: And the last question from my side with respect to the employee expense. So I see that there is an increase of round about INR440 crores. There is a provision also which has been made. So is this going to be continuing first to cover for the next two quarters? Or are we done with provisions?

Srikrishnan H.: Sir, this provision primarily is for the IBA revision to bipartite settlements, which they announced in November last year. And ever since that time, we have been actually providing quarter on quarter, although it has not come in into effect. So in order not to kind of have any major impact on our P&L as we go forward, if we have not provided for that. So as a very clear prudent measure, we've been providing for this quarter-on-quarter.

Now as and when the IBA mandates come -- go live. This will move from provision into actual wages bill, the actual salary bill that we will incur. So essentially, this is going to stay and this is cost of running the business.

Sekhar Rao: Just one correction, you got the numbers of provision right -- wrong. In fact, our quarterly total expenses on salaries is INR269.45 crores for the last quarter. So this INR440 crores provision on the wages is incorrect. It is a much lower number.

Srikrishnan H.: So the salary bill for the quarter is INR269.45 crores.

Moderator: The next question is from the line of Ketan Athawale from RoboCapital.

Ketan Athawale: I wanted to know what will be the credit cost going ahead? And what will be a sustainable level of other income going ahead?

Srikrishnan H.: So credit costs from an overall projection, I think that will be hovering the same region of 0.5%. So that is not going to change much. And we believe that even on the ANN growth basis, it will not change. That was your first question. Sorry, what was the second question?

Other income plan. See, what we have done is that as a bank, if you look at the opportunity in the market, every account where we lend money, we need to also have some product income associated with that. This could be anything which is related to cash flows or foreign exchange or non-funded commission for a couple of exposures, etc.

So all of this is basically what we call in our banking parlance as a cross-sell opportunity for corporates or SMEs also. Now that part of the bank has not been activated fully. And we believe that we will introduce the right kind of products and also the right kind of sales mechanisms to promote this. So with foreign exchange centralization, which is a project that we've undertaken now. And with all of whatever that we are looking at for the overall product push, we believe that the fee income would go up.

Just a small correction, 1 second hold on.

Sekhar Rao: On the credit cost, it will be more like in the range of 0.25%, last quarter was around 0.17%. So that will be...

Srikrishnan H.: Apologies on that, yes.

Moderator: The next question is from Nirvana Laha, who's an individual investor.

Nirvana Laha: Yes. So in your opening remarks, you mentioned about a couple of co-lending partnerships. So I wanted to explore that a little bit. So what areas of loans are you considering under these partnerships? What kind of vision that you have for co-lending in terms of AUM that you want to target? And who are the partners you're working with?

Srikrishnan H.: So firstly, I'll answer the question on the vision. Clearly, we have stated in our last quarter strategy, I mean, investor presentation that one of the vectors for growth will be through partnerships. In this regard, we have consolidated our tech, and digital resources in Bangalore. We created a tech and digital hub. We are creating our API hub, which will be public facing and we'll launch it soon. So partnership, growth through partnership is an important vector. And we'll continue to invest in the same. However, it is a little premature to quantify the same.

The ones that we have gone to are the product categories that we are focusing on Agri, including dairy and micro SME. And we are also looking at apart from co-lending certain interesting opportunities in areas like credit on ECI. These are the 3 focus areas currently for us.

Nirvana Laha: Okay. And who are the partners you've gone with, is this a tenant and what kind of disbursals are you at least starting to think of, if you can tell us about that?

Srikrishnan H.: So the partners that we have gone live with are just to name a couple is SahiBandhu, and then Northern Arc, PaisaLo, but these are early days, and we have just about 15 days, a week or so in some of these relationships. So we wouldn't want to kind of give any number of projections as of now. But on the heavy lifting with respect to tech integration has happened. And so now reaping the benefits of the platform is the next phase.

Nirvana Laha: So 1 thing I wanted to understand is what kind of ROA, I'm sure you must have done your homework. So what kind of ROAs is the bank hoping to earn through co-lending? Is it going to be at par with the ROA on the book lending? Because what I understand is under co-lending a bank would actually take the loan on board at a lower interest rate and if the customer came directly to the bank. So in terms of ROA, how does it work out for the bank overall?

Srikrishnan H.: So in terms of pricing, it is very important that you don't operate differential pricing to the customers irrespective of whether they walks into the branch or through the co-lending partners. So we at least have gone with a uniform pricing policy and which is competitive, more competitive as against these gold loan NBFCs. And since there is relatively less infrastructure carry, we will have similar ROA and there won't be any negative impact on ROAs in this space.

Nirvana Laha: Okay. But aren't like operating costs is going to be lower for you because the origination is supposed to be done by the MSME partners towards that extent or operating costs are supposed to be lower, right? So if your lending rates are the same, shouldn't you...

Sekhar Rao: I commented on the specifically on gold loans. On micro SMEs, there will be a different strategy. The pricing will be the product category itself will be unique. And the pricing will be different because the loss ratios could be a little different in those product categories. These are largely unsecured. So different strategies for micro SME product distributed to the branch and the micro SME product distributed through a partner are two different products for different product segments. And the entire, what we call, customer proposition will also vary accordingly.

So the way we are approaching it could be quite different. In the gold loans, where the same customer would walk into your branch essentially because what happens is gold loan partnership with SahiBandhu will be in geographies where our branches are present. While in the MSME, it will be in geographies where we do not have branches. So in gold loan hence, you cannot have competing strategies. You will have to have complementing strategies. While as in MSME, you can have two different strategies for different markets.

Nirvana Laha: Okay. So thanks for explaining that. Coming to your presentation, there's 1 slide that says targeted performance improvement to boost returns. So various metrics are spelt out there. I can see that for the last 3 quarters, we have almost been hitting all those metrics. For example, NIM of 3.63% to 3.68%, ROA of 1.37% to 1.47%. Cost of fundings upper end being, 5.1%. Cost-to-income ratio of 51.29%. So therefore, is this still the ambition or from a 2-3 year point of view is the ROA ambition, for example, going to go up?

Srikrishnan H.: So ROA ambition will be the same, 1.2% to 1.4% that would be the guidance or the range, I should say. And the reason that why we reiterate about the 4 or 5 very key metrics as far as the bank is concerned is because when we are growing, we should lose sight of the basics. And this is actually the basic for banking.

And which is why we kind of reiterate that every investor presentation and every internal meeting that we have with our executives to make sure that we do not slip away from each of those on the pricing related to new business or even some of the existing business in terms of the chart. So this is fundamentally the way that we conduct business here.

Nirvana Laha: Okay. Got it. And one last question on the Corporate Banking segment and the segmental results. I think in your opening remarks, you said that there was a onetime provision or head, which was a Y-o-Y comparison. But if I look at your segmental corporate banking profit Q-o-Q also, there's a 40% drop from about INR150 crores to about INR90 crores. So what's does that pertain to?

Srikrishnan H.: So I just want to clarify that what I was qualifying was that there was a write-back, which was for a recovery of one of the large corporate loans in the same corresponding quarter last year. So if you look at the last year same corresponding quarter now, obviously because of this 1 abnormal positive impact the bank has, we would actually see that there's a reduction where there was an increase of 30% from the last quarter's growth. So that is the clarity. So I just thought that I would tell you exactly what the position was.

Now that was almost to the tune of INR155 crores, INR156 crores.

Nirvana Laha: Yes. So if I look at Q-o-Q in the June quarter, your corporate banking profit segmental results was INR155 crores, which has now dropped to INR 94 crores. So this big hit has happened due to what reason?

Srikrishnan H.: So treasury profits, like I explained, are quantified under -- so that is -- that could be one, but we will note this question down and write back to you on the specifics.

Nirvana Laha: Yes, because I think treasury is called out separately, that has dropped by around INR60 crores.

Srikrishnan H.: We will just look at where your specifics are from and we'll come back to you.

Nirvana Laha: It is from basically your results where you declare the segmental results there if I look at corporate banking. So against INR155 crores of profit last year -- last quarter, it has dropped to INR93.5 crores. So that was my question.

Srikrishnan H.: Okay. We'll get back to you on this specific.

Nirvana Laha: Okay. Should I write to you on Investor Relations or...

Srikrishnan H.: Yes, you can write to us.

Moderator: The next question is from Ram, who is an individual investor.

Ram: Sir, you just explained regarding the CASA ratio, but last 3, 4 years, it is remaining stagnant around 32%. Will there be any initiative to improve this to 35% or 40%?

Srikrishnan H.: The CASA ratio at 32% for a bank, which is growing, and whether the total deposit size of INR 60,000 crores become INR80,000 crores or now it has become INR 89,531.73 crores. That means that the ratio has been maintained, which is actually quite healthy. So that is one.

Secondly, there are a couple of initiatives that we have taken on the government collection which you are very pretty aware that GST enablement of transactions and very soon enabling CBDT transactions as well.

So now what happens here is that this will increase to the float, and it will substantially improve as we go forward. And we believe that this is the right kind of approach for a bank like us.

Ram: Okay. So one more question. In the advances, about 48.9% is of retail advance. Is it fully secured? And what is the proportion of the secured and unsecured, can you please enlighten on that, sir?

Srikrishnan H.: On the retail advances almost, as I said, 95% are secured whether this is housing or asset-based financing like vehicles and so on. The unsecured portion that we have is actually very, very insignificant.

Ram: One final question. As to the geographical thing, the top 5 states you've given, Karnataka has 577 branches and followed by Maharashtra, Tamil Nadu, Andhra Pradesh, Telangana. Is there any efforts in the coming period future to is it a pan India this one? And what is this one, your plan for that?

Srikrishnan H.: Plan for what, sir?

Ram: Plan for growth all over India in the next 2, 3 years.

Srikrishnan H.: So just to give you a sense while 570-plus branches are in Karnataka, between the neighbouring states, Maharashtra, Telangana, Andhra Pradesh, and Tamil Nadu, we have in each 1 of them over 50 branches. Then followed by other locations. So we are present already in Gujarat. We present in Madhya Pradesh. We are present in Delhi NCR, Punjab, we are present in East. We are present in Odisha, so that way we have a national presence already. And we are actually 22 states and 2 Union Territories. That is the background to our distribution.

Moderator: We'll take that as the last question. I would now like to hand the conference back to Mr. Srikrishnan H for closing comments.

Srikrishnan H.: So I would like to thank the investor community for reposing confidence as far as the bank is concerned, the institutional investors as well as the retail investors who have always been standing by our side.

And based on the last couple of months, that I've been here, we've been doing the around meeting up with all kinds of investor types in various locations. So we believe that we are a very strong story with credentials, which are unparalleled, because this is the 100th year of the institution, and we are celebrating our centenary.

Out of the 99 years that we have been existing, all the 99 years we have been profitable. And almost like 96 out of 99 years, we have paid dividends to investors also. Other than some years when the regulator did not allow us to do so. So this is the track record. And here is an aspiring institution, which wants to do a transformation in terms of change. We want to become a national story from being a regional story and also develop a lot on technology and digital banking. So this is the way in terms of growth as far as the bank is concerned. I want to only thank you.

This is going to be a very, very focused attempt from the new management team as well as the existing management team, who have been wonderful in terms of their contribution and cooperation to this transition and transformation journey. And we believe that we will be a real force as we go forward.

On that note, thank you all, and wish you all the very best for the festive season ahead. And the festival season that has already commenced from our last about almost 15, 20 days since Navratri. Good luck to you all to your family and many thanks again for all your support.

Moderator: Thank you very much. On behalf of Karnataka Bank, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.