Edited Transcript of

Karnataka Bank Limited Investor Access Meeting Conference Call

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MANAGEMENT: **MR. MAHABALESHWARA M S – MD AND CEO**
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MR. BALACHANDRA Y V – COO
MR. ABHISHEK BAGCHI – CFO (DESIGNATE)
MR. MANOJ SAHA – HEAD (IR)

MODERATOR: **MR. NIKHIL – NIRMAL BANG**

Moderator: At the outset, I would like to thank the management of Karnataka Bank for allowing us to host this conference.

The management of Karnataka Bank is represented by Mr. Mahabaleshwara M S – MD and CEO; Mr. Sekhar Rao – Executive Director; Mr. Balachandra Y V – COO; Mr. Abhishek Bagchi – CFO (Designate); and Mr. Manoj Saha – representing IR AgencyIR).

I would request the management to commence this session with some opening remarks on the business environment as it stands today, further to which we will open the floor to the investors for the Q&A session. Thank you, and over to you, Sir!

Mahabaleshwara M S: Good afternoon, Mr. Nikhil of Nirmal Bang. Thanks for arranging this Investor Access Meeting. I am Mahabaleshwara M S, MD and CEO of the Bank, accompanied by our Executive Director, Mr. Sekhar Rao, our Chief Operating Officer, Mr. Balachandra, and our CFO Designate, Mr. Abhishek Bagchi.

So, for this meeting, whatever we have already conveyed and communicated in our previous Q3 Con Call, we will be making use of that and giving a brief introduction of our performance for the Q3 of FY '23, as well as for the 9 months ended December '22 of the current financial year.

You are very well aware that Bank has been able to show a consistent and sustainable performance in all banking spheres . The net profit for the three months went up by about 105.14%, and it is up by 118.49% for the nine months. So, that is why we are at a historical high of Rs.826.49 crores of net profit for the nine-month period that ended December '22.

Operating profit also for the nine months ended it showed a growth of 21.42%. NII also showed a growth of 26.74%, whereas for the current quarter, i.e., the third quarter, it went up by 34.07%. NIM is again both for the nine months and the three months. it is at a historical high of 3.63% and 3.81%.

ROA also for the three months ended, it is at 1.21%, and for the nine months, it is at 1.14%. ROE is again at a historical high for Karnataka Bank at 15.61% for the three months and 14.74% for the nine-month period.

Our asset quality i.e., NPA is continuing to moderate. Both the GNPAs and NNPAs have come down. GNPA now stands at 3.28%, and NNPA at 1.66%. And the provision coverage ratio has significantly improved to 80.21%. About a year back, it was at 73.66%.

And the CRAR also has improved to 15.13%. A year back it was at 14.15%. And, of course, this excludes the current year's eligible profit. If the current year's eligible profit is included, CRAR would be around 16.57%. The advances grew by 12.51% year-on-year, and the deposits grew by 7.86%. As already mentioned, we are focusing on a credit growth of around 15% for the current financial year by March '23.

Again, '23-'24, we will enter the Centenary year of Karnataka Bank. The day after tomorrow i.e., 18th of February '23, we will be completing 99 years and entering into the 100th year. So, a year-long Centenary celebration is also planned.

However, while entering the Centenary year, we aimed to strengthen all the fundamentals. That was our primary objective, which was the focus we had paid during the last five years of KBL Vikaas Transformation Journey. The fruit is the results on the expected line. We can see the results now, we have already laid a strong foundation for the consistency and sustainability of these numbers. So, once again, I thank all the investors and shareholders for their continued support.

Now the Forum is open for discussion, over to you.

Moderator: Thank you, Sir, for your opening remarks. We will begin the Q&A session. We have a question from Mr. Krishna Kumar from Lion Hill Capital. Sir, please go ahead.

Krishna Kumar: Sir, congrats on a great set of performances over the last many quarters. Sir, could you give us some perspective on the deposit side, how we are looking at getting to a 15% improvement? And also, going forward, what will be the strategy given that there is a lot of pressure on deposit mobilization by all banks? How do you see this happening to you? And what could be the cost increase you will see on the liability side over the next 6 to 12 months, Sir? That's the first question.

Balachandra Y V: On the deposit side this year, the market or the industry as such has seen some kind of a rate-rising scenario only. To respond to the kind of competitive situation in the market, we have also tweaked our rate of interest multiple times. And the growth as such is a sub-10% for the current financial year, and we have adequate liquidity in the system to cater to the requirement of 15% advance growth, which has been projected and just now highlighted by our Managing Director.

So, as regards the schemes, we have also launched a scheme to celebrate our Centenary year a Centenary deposit scheme has already been launched. In October, it was launched, and further tweaking of the interest rate has also happened in response to the market movement.

So, as such, liquidity for the industry this time appears to be a challenging area. For us, we have adequate liquidity support to, fund the advance requirement and lending requirement. As such, we are not foreseeing any challenges in meeting the advance requirement of a growth rate of 15% through deposits or wherever required for the short-term or borrowing side.

Sekar Rao Also, I would like to add just one or two quick points here. In fact, the Bank implemented a five-year transformation journey called KBL Vikaas. BCG was part of that entire transformation roadmap. As part of that, a lot of processes got digitized, and a significant technology transformation occurred.

So, customer onboarding is now almost completely digital. 80% of our savings account is originated or fulfilled digitally. As we speak, we are also implementing the digital journey for current accounts. So, we have created the platform for growth, and all the engines are available.

As we enter the coming year, we plan to leverage this opportunity or this infrastructure to grow in identified segments, like savings accounts and particularly salaried corporate accounts and government businesses where we have got approval for CBDT integration. We are already live with custom duty.

We have integrated with two State treasuries, both Karnataka and Maharashtra. That is the agency bank arrangement.

And lastly, also leveraging our presence in southern markets for current accounts. So, these are three or four areas where we see a significant ramp-up in the sourcing and the book.

Mahabaleshwara M S: So, in a nutshell, the CASA franchise will be further strengthened. The entire banking system has entered into an area where the interest rising scenario is quite visible. If you look into the exact numbers of the cost of deposit, so in our Bank also, our cost of deposit, as of September '22, was at 4.46%. Now as of December '22, it is 4.54%. So, definitely an interest rising scenario. So, going forward, it may also impact the NIM, but that is what we have already factored in. And we aim to maintain a decent spread. So, that is how I think we should be able to have a decent NIM also going forward.

Krishna Kumar: Thank you for the elaborate response, Sir. And, , on the RBI guidance on the draft paper on provisioning for credit losses on an ECL basis, how are we placed on that front? What is the expected increase in provisioning costs that one may look at in the next year if it comes through? Other things remaining the same, what could be the Delta impact , on provisioning?

Abhishek Bagchi It would take some time to be implemented. If you see that ECL paper, it has been explicitly mentioned that the draft would take a year. After that, it would invite all the pointers and comments, and only after a year would it issue the final guidelines. Even after that issuance, RBI will give us a year to implement.

So, as of now, we estimate that at least it would take three years to implement it. Now, internally, we have discussed the nuances, and we have found some grey areas. RBI has asked Banks to respond by the end of February, where RBI has asked reply to 18 questions. We have drafted our replies and will submit them in time. At the impact angle, it is under calculation, and I will come up with the estimated numbers.

Mahabaleshwara M S: As far as this ECL is concerned, definitely, we are on our way to implementing the IndAS in the banking industry. In our Bank, about five years back, we started a working group on the IndAS. So, we are consistently and continuously preparing our proforma balance sheet based on the given principles of ECL and the IndAS. So, on that front, we have already started the preparation.

So, we are very well aware of all the banking sector requirements by the regulator. And we have already started working on it. So, keeping that in mind, two things are very pertinent here. One is the historical data. The second one is the capital-intensive nature of this particular accounting practice. I must say that on both fronts, we have taken abundant precautions right from the beginning.

So, even going forward, whatever the action plan RBI is proposing for the entire banking industry, I am sure that Karnataka Bank will not lag behind in implementing those requirements. So, that is the preparedness as of now we have at Karnataka Bank.

Krishna Kumar: So, just one last question, Sir. We are a bank with a very diversified set of shareholders, no identifiable promoter group, etc. So, going forward, Sir, we hear a lot about, you know, how consolidation could happen, etc. So, in such a scenario, how do you see our Bank, how our Board would respond to, you know, consolidation attempts by others, or are we on another way where we want to acquire and consolidate? What is the broad thought process at the Board level, Sir?

Mahabaleshwara M S: Yeah, two things are very important. Merger and acquisition is not new thing for Karnataka Bank. In the 1960's, three banks merged with Karnataka Bank. In the year 1960, it was Shringeri Sharada Bank. 1961, it was Chitaldurga Bank Limited. And 1966, it was the Bank of Karnataka. So these three banks merged with the Karnataka Bank.

The second one is, as you have rightly pointed out, we don't have any promoter group. None of the shareholders, as of now, hold more than 5% of the equity. So, that indicates that it is a professionally managed bank. So, on many occasions, I have made it very clear that we have a professionally managed bank with a professional Board, seasoned executives, committed employees, and the loyal customers. These are the four strong pillars of Karnataka Bank.

So, all these 100 years, we have been focusing on that, which is why the Bank has never incurred a loss in any of these 100 years. This is one very significant feature of Karnataka Bank. Not only in the 100 years but also if you look into any quarter, not even on a quarterly basis, the Bank had incurred a loss. That means we have been a profitably run bank. So, the identity and these core values of the Bank would continue.

So, going forward, let us say I am also not averse to inorganic growth. As and when an opportunity comes, the Board will discuss and take an appropriate view at that time. But Bank would continue to have its identity and would continue to contribute in a significant way to society as well as to all its stakeholders going forward. That is our Centenary resolve.

Moderator: Nikhil, go ahead with your questions.

Nikhil: Yeah. So, meanwhile, I will just take up my few questions. Sir, as you have indicated, we are targeting 15% growth for FY '23. Sir, I just wanted to know your sense, like taking a broad sense and, you know, further ahead. So, for the next couple of years, like '24-'25, what would your overall growth strategy be? In which segments are kind of focusing more? And what is sustainable growth that you believe when the Bank can achieve, our Bank can achieve it?

Mahabaleshwara M S: The Indian economy is poised for decent growth in the coming years. And as India is acting as an economic engine for the entire world, I am reasonably convinced that we can have a high teen growth in the credit for our Bank for the next couple of years.

The second one is definitely we are focusing on the agriculture sector. That is our priority area. And we also have a very good action plan to take our gold loan portfolio from around 5% to a level of around 10% down the line, may be about a couple of years. And the Auto loans, that is, the four-wheelers and the two-wheelers, that is our identified priority focus area. And also the home loans. Currently, home loan portfolio comprises around 16% of the loan book. Definitely, there is a very good scope for taking it to a level of 20%.

As already mentioned by our ED, Mr. Sekhar Rao, we have already automated the entire underwriting process of these retail loans. So, that is the capability that we have. So, these capabilities will help us enhance our efficiency in all banking spheres. And coupled with that, our MSME portfolio is also faring well. So, we will continue to focus on that.

There could be some good proposals in the mid-corporates also. We are not focusing more on the large corporates, that is more than Rs.100 crores exposure. If at all we are focusing there, it is on the high-rated corporates. And what are all the ancillary business that we will get from that sector, also being taken care of.

So, we have identified these sectors for growth, and we will definitely continue to focus on these. So, in a nutshell , our focus area should, I mean, our aim, is to have a very decent high teen growth in the advances without compromising the quality.

Nikhil: Sir, just to further push on this thing, like home loans what we are targeting, like we were also having a discussion with few of the management this week, where many few of the managements have indicated that because of the increasing interest rate scenario or there is some like on the volume side, the growth has been on the lower end, and it's more because of the premiumization that the overall growth is sustaining. Sir, are we also facing such kinds of things? Or how is it, if you can?

Sekhar Rao: Yeah. So, right now, to answer your question directly, we are not focusing just on the premium segment. It is a more diverse bucket that we are getting our home loan sanctioned. Also, in the markets that we are currently present, our strong markets are South and West, Mumbai included. Mumbai region is our second largest city.

So, in these pockets, say, Bangalore, Hyderabad, Chennai, even Mumbai, we see fairly sustained, less of Mumbai but more South market. We see fairly sustained, what we call, home loan inquiries and growth. And we see that happening for at least another two to three years because there is ample capacity and demand on the real estate side. And, of course, then it comes to funding.

Until now, we largely depended on the branch to originate these loans. It was more of inbound or cross-selling of home loans to our customers, but now we are setting up or already set up in major geographies a fairly extensive DSA Network to increase outbound business as well. This, coupled with properties, and pre-approved properties, we expect a fair bit of growth in home loans.

Moderator: There is a question in the chat box. So, I'll just read it out. It's from Mr. Ketan Shah. Like, is it possible to share your view?

Ketan Shah: Sir, last two, three quarters, we have just come out of the phoenix, I will say.

Mahabaleshwara M S: I said it is sustainable and consistent hereafter.

Ketan Shah: Yeah. So, my question was on that only, Sir. If you can share your view on your asset quality going forward for the next, let's say, one to two years, how do you see your GNPA and NNPA ratios? If I exclude the last two quarters, you know, the spikes have also been quite high in the past. So, any guidance will be very helpful. That is one question.

And the other is, Sir, I was reading your annual report, and we are doing some CAPEX on the corporate office front. So, if you can guide us on that, that will be very helpful.

And the third question will be about your technological initiatives. I got some information, but how do you intend to increase those tech initiatives? Are you recruiting some key people there? Or are you taking some more help from outsiders? That will be helpful.

Mahabaleshwara M S: Let me answer all these three questions one by one. Regarding asset quality, I think all our past, the negative surprises, are over. We are in the area of positive surprises, and we have been making the asset, this stress identification, and some proactive steps also. EWS, everything we have put in the system.

So, the hidden stress, if any, we are able to identify. In fact, that is one of the assignments or the use cases that we have highlighted for our ACOE journey as well, which is the Analytical Center of Excellence.

We have been in an accelerated provision mode for the last couple of years. As a result, the GNPA now stands at 3.28%. I am sure that we will be heading towards below 3% very shortly, and we should be able to sustain that.

In the NNPA also, now it is at 1.66%. So, most probably, it may stabilize at 1.5% and below very shortly. And after that, it would further improve because of the stress in the portfolio in terms of SMA0, SMA1, and SMA2. Not only the stress, as I said, the hidden stress, even some of the regular accounts, but they may also be as far as the financial parameters are concerned, they may not throw out any stress-related issues. But we have already established a tool wherein the non-financial parameters related to stress are also now being identified. So, corrective actions are initiated at an appropriate time.

So, that is the confidence I have that going forward, since our onboarding of the loans, a lot of filters have already been put in place, and the quality of onboarding has improved significantly. The monitoring process has also been taken to a new high. I am reasonably convinced that the asset quality we are seeing now will improve further in the days to come. It would get better and better.

As far as the capex is concerned, I think it is maybe the total capex is not even one-third of our quarterly profit as of now. It would be in that range. So, it is coming up as a Centenary building mainly to cater to our back office related activities.

In the technological initiatives, you are very well aware that we already had the DCOE Digital Center of Excellence at Bengaluru, an innovation hub for all our underwriting products that we have launched and for liability products. So, now, as rightly pointed out by our ED, the majority of our day-to-day SA onboarding customers is happening through the digital channel.

Apart from that, we have recently started the ACOE i.e., Analytical Center of Excellence. That means we are convinced that, in due course, all our decisions will be driven by data. You know that data is an asset. So, to encash that opportunity to put Karnataka Bank in a leadership position in that area, we have started ACOE. So, a lot of initiatives have already been started. About 32 use cases have already been identified. And that is the new way of doing business supported by ACOE initiatives.

Another important thing that has happened for Karnataka Bank is that, about a year back, we started our wholly-owned subsidiary-KBL Services Limited (KSL). So, this is one major instrument wherein I am betting on efficiency enhancement. I call it all-around efficiency enhancement because we will have more feet on the street from the subsidiary. A lot of back-office work is also being entrusted to KSL. We are hopeful that going forward, this would be handy in having a decent cost-to-income ratio, which is presently at 47.90%.

So, these are all the initiatives that would have a far-reaching impact, which is why we are convinced that going forward, we will definitely emerge as a strong, vibrant digital bank.

Ketan Shah: Sir, one question. Do you see any specific stress in any specific industry, let's say, MSME or Gems and Jewelry space? If you can give any qualitative info on where you see, you know, any surprises or any stress in the industry?

Balachandra Y V: See, you mentioned stress in specific sectors. In fact, our exposure to gems and jewelry is very, very negligible. The portfolios like housing or MSME where we have done some kind of restructuring with a moratorium during COVID-19 are closely monitored In majority of the restructured accounts repayment has started, i.e., they have come out of the moratorium. The moratorium period was maximum up to 24 months. You all know the COVID-related packages announced by the Reserve Bank of India and implemented by the banks. So, these particular portfolios are getting the required attention.

And yes, during the current year, we observe , delayed payment coming to the contractors from the government, which is now getting some kind of a focus, where we saw some kind of stress. Therefore, with this particular exposure to the contractor segment, especially the state government, I am not talking about the NHAI contractors, whether it is only local or state government contractors. We are hopeful that during the fag end of the year, a lot of payments are expected as traditionally used to happen. That would continue to flow to the contractors, and the stress in that portfolio will also substantially decrease.

So, we have already set up separate monitoring teams to look into stress management, identifying the stress well in advance and having one-to-one interactions to address the stress. All these are taking place because of that exclusive monitoring team in our credit monitoring department.

Mahabaleshwara M S: To give a few numbers, we have been closely monitoring the NPA level in every important sector. Say, for example, about a year back in agriculture, our NPA percentage was at 5.88%. Now it is at 4.73%. And if you look at the MSME, about a year back, it was at 6.02% of that particular sector. Now it is at 5.46%. And if you look into the infrastructure, our stress about a year back was 3.48%. Now it is at 1.41%.

Similarly, real estate. Both the commercial as well as residential, it was at 3.49% about a year back. Now it is at 2.90%. NBFC, we had a 0.16% NPA about a year back. Now, it is totally nil. None of the NBFC accounts are figuring in the NPA accounts. So, in all the portfolios, individually, we are keeping a close tab on it, and there has been a consistent improvement across the loan book. And I am reasonably convinced and confident that we will be able to take it forward on account of two factors. One is a very, very efficient onboarding process that we have put in. The second one is a very effective monitoring process.

Moderator: That was Mr. Ketan Shah from Shriram AMC. Thank you for your questions. We have a question from Mr. Dhimant Shah from ITI.

Dhimant Shah: Sir, two quick questions. Your ROA, ROE is functionally there. I mean, you had guided earlier for targeting around 1%, and the ROE around 15%. Functionally, with the current construct and the retail tilt that you have, how do you kind of for the next one or two years in the medium term, especially given that quite a few PSU banks also want to have this retail tilt, so what are those two, three things that will give us an edge and also continue to maintain the ROA upwards of 1% and ROE hopefully has an outcome greater than 15%? So, if you can spend a minute on this?

And question number two, could you also give us the color of your investment book? What are the overall duration and the duration for the AFS and the HTM book? And do we see, you know, some more pain in the ensuing quarters or, by and large, the depreciation that we saw is almost done? So, if you can just help answer these two?

Mahabaleshwara M S: ROA and ROE related; I think our ED would answer. Investment book related; our CFO will answer.

Sekhar Rao: Coming to the ROA and whether it is sustainable and the linkages to our retail strategy, I will first speak about the retail strategy compared with public sector banks. Yeah, some public sector banks have done well in retail.

But there are a host of other ones whom this bank consolidation has adversely impacted, and that has happened more or less to a large extent in Karnataka where some of the household names like Syndicate Bank, Vijaya Bank, and Corporation Bank, which no longer exist.

So, we are getting a fair bit of positive rub-off on account of that. Customers wanted to wait and watch and give them some time so that the consolidation merger works and we see customers willing to kind of migrate to us. Here our investment in technology where across retail, our, schematic loans or parameterized loans are now digital end-to-end, which makes customer onboarding easier and work at scale as well.

A lot of our MSME loans are also along the same lines. We have introduced products for cash flow-based lending in MSMEs. We are also working to create innovative products. One such initiative is a product that will work with the GeM Sahay model, and we will have a cash flow-based product.

We were till now restricted to inbound businesses. Still, as Mr. Mahabaleshwar mentioned, we have institutionalized a subsidiary, which also gives us adequate feet on the street to go outbound selling. So, many models more akin to newgen private sector banks in the retail space have been adopted over the last year and are falling in place. So, clearly, the groundwork for growth has been done, and we will see fair numbers and fairly good numbers happening in the retail space.

Dhimant Shah: Sir, Just have a question here. When you set goals and targets for the ensuing one or two years, what are the areas you can course correct and enhance so as to fall in line, just in case, let's say, you have targeted just for argument's sake, let's say, in the current year, you have targeted, let's say, 1.25 as ROA, and let's say, 16% as ROE, upwards of 16%. And let's say for the half year, you find that this is only 1.1% and 15%. Then what levers would you tap into to course correct and kind of push the pedal to reach closer to the goal?

Sekhar Rao: So, obviously, these are, like you correctly mentioned, lag indicators. We will continue to work on the lead indicators, which are consistency in our quarterly results, consistency in the health of our book, and consistency in the growth, particularly the top line, on the advances growth, which we are already clocking. And we have already seen our consistent results over the last three or four quarters in ROE. ROA will be slightly more of a consolidation, I would say. You won't see anything spectacular there. We will hover around this range, or it will be within a range bound between 1.14% to 1.25%. And ROE, we see some, if we say consistent, some good news there.

Dhimant Shah: Great and the second part of the question, if you can?

Sekhar Rao: Second part of the question on the investment book. What's your exact question on this investment part?

Dhimant Shah: So, the overall duration of the book, then the HTM portion duration, and also the duration of the AFS as well as the trading book?

Abhishek Bagchi: So, I will get back on the duration numbers. I don't have it ready-made. But what I can help you with is that on the depreciation. So, you were also asking about the depreciation on the AFS and the HFT angle, wasn't it so?

Dhimant Shah: Correct.

Abhishek Bagchi: So, on this entire 9M, we have incurred a depreciation of about Rs.200 cr. As the rates are hiking up, we are factoring in the decrease in the price and the depreciation on the AFS and the HFT portfolio. Not only so, but at this time, RBI has asked us to provide the SR portfolio security receipts.

Mahabaleshwar M S: For the entire banking sector.

Abhishek Bagchi: Yes entire banking sector. We have made a provision of Rs.95 crore this quarter. And another issue is that RBI also issued a discussion paper on investments last January.

Dhimant Shah: Sorry, just to clarify, this SR is on what you have, kind of?

Abhishek Bagchi: On the ARC.

Dhimant Shah: On the ARC, okay.

Sekhar Rao: On the security receipt, just very quickly on that. Our security SR book is more than 93% provided for. We stopped the SR ARC sale almost three years back. Even post-Q3, there has been some recovery in the SR book. And in fact, we have made some money out of it. So, the point he was making is that the Q3 results would have been even better if this Rs. 94 crores one-time provisioning had not been made.

Mahabaleshwara M S: Mr. Dhimant, you might have noticed that SR provision, whatever that Rs. 94 and odd crores that we have made, does not get reflected in the PCR, nor in the CRAR.

Dhimant Shah: So, this is an extra portion that we have.

Mahabaleshwara M S: Yeah.

Dhimant Shah: And lastly, the focus areas as far as this year goes in terms of, you know, the high-yielding loans, what would be those areas? Would you come prime, let's say, to balance out, so would you focus on housing? Would you be focusing on gold loans? What are the focus areas this year?

Mahabaleshwara M S: I think I have already answered that question. See, our focus area would continue to be agriculture, contractors, infrastructure-related things, home loans, auto loans, and gold loans. So, these are some focus areas, and we are very active in those areas. So, for the current nine months, this has been our focus area, and I think we will be getting stronger and stronger in those areas, including the MSME.

Abhishek Bagchi: Dhimant, I will get back on the duration front. I will email you.

Moderator: Nikhil, why don't you continue with your questions?

Nikhil: So, Sir we have already indicated this in our Con Call as well, and now our ED, Mr. Sekhar Rao, has joined. Mahabaleshwara, Sir, just like if we have two months for your term, what is the process there? And how if there is some incremental news as well if you can share?

Mahabaleshwara M S: Process has started. So, Board is totally seized of this particular action point. So, we are very much on track. And as I said, our Bank is a professionally managed and system & process-driven Bank.

Suppose you look at the transformation journey that we have treaded during the last five years. In that case, it is a testimony to that also because that transformation journey KBL Vikaas was not any individual-driven initiative. In fact, it was holistic and inclusive, and it also had an element of a bottom-up approach, as well as crowdsourcing of the ideas. Our staff members acted as the change agents.

So, in a nutshell, this is basically a system and process-driven Bank. So, things will be taken care of accordingly in a professional way going forward also. My second term would come to an end by the 14th of April, 2023.

Nikhil: So, I just incrementally wanted to know that on the PSL side, what we have heard is that the rates have not been so much. How are we placed there on the priority sector lending?

Balachandra Y V: Priority Sector mandated target is 40%. In fact, we are positioning ourselves to almost reach 50%. So, regarding the target's achievement, it is not an issue. And majorly, it is coming from our focus area, agriculture, because it is also a mandatory requirement. 18% of the PSL should be towards agriculture, where earlier we had some shortfall. That's why you would have noticed that there is some kind of investment into RIDF. To address this we are focusing on lending to agriculture. And our focus is also on the Agri Gold loan together with which we are confident to achieve agricultural sub-target under the priority sector.

Balachandra Y V: No, as I said, no incremental additions to any RIDF, etc. We have more than achieved both the PSL s.

Nikhil: Sir, just the last question from my side. If you can share the data-keeping points, what could be our incremental yield on housing loans and gold loans?

Sekhar Rao: So, incremental yield, of course, we will be in line with all our products linked to external benchmarks. So, it will move in tandem with how the pricing moves. On gold loans, of course, the yield of our, overall advances book will improve. Because gold loans have a higher yield as compared to other loans, we are planning to increase our penetration of gold loans, given that we have 500 plus branches in the South, which is a very active gold loan market. But otherwise, we will stay competitive in the market, and our pricing will be as competitive as other peers or competitors in the market, and it will be linked to the way external benchmarks move.

Mahabaleshwara M S: See, two things are there. One is, of course, across the industry, the interest rate is moving up. The second one for us is the quality of the portfolio is also improving. So, these are the two major factors that are contributing to the increase in the yield on advances, not only in a particular sector but also for the entire loans. So, the trend is very much visible. We have been tracking this trend for the last couple of quarters. This is moving in as per our expectations.

Nikhil: Sir, just one last thing if we can squeeze, that is mainly on our branch expansion. So, we have been growing, and we have been expanding our branches. So, any specific area that you will be targeting or regions?

Mahabaleshwara M S: We have identified about 12 promising states across India for our brick-and-mortar branch expansion. So, this year we have targeted opening around 20 branches, which is very much on track. Next year also may be in the same line. We may open 20 to 30 branches, but our focus is on having more digital touchpoints. The second one is more business per branch and more business per employee. So, these are the qualitative factors that we are driving. That doesn't mean we will not focus on the physical branches. That is also there, but we will not be going big in the physical branches.

Nikhil: And Sir, any specific regions that you are targeting? We are well spread in the regions we are working in right now, like Karnataka, Maharashtra, and Delhi. So, any other?

Mahabaleshwara M S: No, as I said, we have identified 12 states. So, these 12 states are spread across India. Depending on our past experience and exposure to those states, and the present, the economic conditions of those states, as well as law and order, we have identified these states because we should be able to get the best out of those branches that we are opening. Because for me, how quickly these branches would break even is also a significant factor. In fact, that is one of the KRAs for the executives also. So, these things are really factored in, while taking a call on branch expansion.

Moderator: As there are no questions and in the interest of time, Nikhil, we can conclude. Thank you.

Nikhil: On behalf of Nirmal Bang Institutional Equities, I thank the management and the participants for giving us time and joining this conference today. Thank you very much.

Mahabaleshwara M S: Thank you. Your effort is appreciated. We are really thankful to you also, Nikhil. All the best.

Nikhil: Thank you, Sir.