

Conference Call Transcript**Event: Karnataka Bank Limited First Quarter Ended June 30, 2016 Conference Call****Event Date/Time: 29.07.2016 at 5.00 PM****CORPORATE PARTICIPANTS****P. Jayarama Bhat**

Managing Director and Chief Executive Officer - Karnataka Bank Limited

CONFERENCE CALL PARTICIPANTS**Vikrant Kashyap**

Kedia Securities Private Limited – Mumbai

Ganesh Shetty

Individual Investor - Mumbai

Shubranchu Mishra

Anand Rathi Securities - Mumbai

Chinmay Desai

Anvil Shares and Stock Broking - Mumbai

Kashish Shambhwani

Individual Investor - Jaipur

Shreyas Bhuvanwala

Sushil Finance – Mumbai

PRESENTATION**Moderator**

Good evening ladies and gentlemen, I am Pritika the moderator for this conference. Welcome to the conference call of Karnataka Bank on financial year 2016-2017 Q1 results. Mr. P. Jayarama Bhat – Managing Director and CEO of the Bank will be a call leader today. For the duration of the presentation all participant lines will be in the listen only mode. After the presentation the question and answer session will be conducted for all the participants on this call. Now I hand over the floor to Mr. Bhat. Thank you and over to you sir!

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

Thank you. Good afternoon to one and all. We have announced our results for the First Quarter of June that is period ending June 30, 2016. To repeat the same, some of the highlights are deposits has increased year-on-year by 10.12 per cent, advances has increased by 11.47 per cent, total assets has increased by 9.04 per cent and incremental CD ratio for the quarter stood at 103 per cent, net interest income has increased by 10.07 per cent, other income has increased by 46.35 per cent, total income has increased by 6.44 per cent, operating profit has increased from Rs 239.02 Crores to Rs 261.91 Crores that is by 9.58 per cent, net profit has increased from Rs 109.34 Crores to Rs 121.54 Crores that is increase by 11.16 per cent, net interest margin stands flat at 2.55 per cent, yield on advances has come down from 11.98 per cent to 10.98 per cent, cost of deposit has also come down from 7.67 per cent to 6.95 per cent, interest spread has come down from 4.31 per cent to 4.03 per cent, adjusted yield on investment has increased from 7.67 per cent to 8.41 per cent, ROA (return on assets) has also increased marginally from 0.84 per cent to 0.85 per cent.

Karnataka Bank Limited First Quarter Ended June 30, 2016

Coming to the asset quality, the gross NPA has moved up from 3.26 per cent to 3.92 per cent i.e. from Rs 1034 Crores to Rs 1389 Crores. Net NPA has increased from 2.05 per cent to 2.61 per cent, amount wise Rs 638.74 Crores to Rs 911.23 Crores. There were slippages to the extent of Rs 336.64 Crores and reduction by recovery write off and others comes to Rs 127.68 crore so net addition to gross NPA is Rs 208.96 Crores. ROE stands at 12.96 per cent as against 12.70 per cent. CASA stands at 26.22 per cent as against last year's 25 per cent. There was an increase to the extent of 17.57 per cent under savings bank account that is from Rs 8716 Crores to Rs 10,248 Crores. The cost to income ratio stands at 51.41 per cent as against 46.94 per cent last year. ROE, I have already told from 12.70 per cent it has gone to 12.96 per cent.

These are some of the highlights of our results, we have published analysis in our website as soon as the results are announced I think you would have gone through that and the business is growing, During April 2016 to June 2016 regarding the business increase, the deposits has increased by 2.01 per cent and advances by 3.08 per cent and business turnover has increased by 2.44 per cent.

I am open to any questions from your side.

Pritika – Moderator

Thank you very much Sir. We will now begin the question and answer interactive session. For all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press "*" and "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their questions on a first in line basis. To ask a question participants may please press "*" "1" now. The first question comes from Mr. Vikrant Kashyap from Kedia Securities Private Limited Mumbai. Mr. Kashyap you may ask your question now.

Vikrant Kashyap – Kedia Securities Private Limited – Mumbai

Sir, thank you very much for giving me this opportunity. Sir I have two questions, the first one why our net NPA has increased, we see that there were some improvement in last quarter and my second question is there are some new banks like IndusInd and Yes Bank has become so efficient in short time what do you think when and how we will become as efficient as their or better than them?

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

Yes, efficiency side if you look at, all the numbers except the asset quality all the other numbers have improved. There are improvements and we started aggressive in advances also as I have told that average incremental CD ratio is 103 per cent for this quarter. This trend is going to be there as far as the advances growth is concerned. We already have some sanctions roughly about Rs 1000 Crores now which is yet to be released and it will be released in this quarter in addition to the usual business growth. So as far as this is concerned other than the asset quality we have shown improvements even in CASA also we have shown much improvement. SB has increased by about 17.5 per cent. This also is adding to our decrease in the cost of deposits. As far as asset quality is concerned definitely your concern I can understand. There were some two three chunky accounts in jewelry sector, which were in the border in March 2016 which slipped to NPA and in some other areas also. And also in agriculture sector, we had some NPAs because of the drought in Karnataka and other areas and these accounts are also likely to be recovered in the coming quarters and about Rs 50 Crores recovery will be there in the agriculture sector. The jewelry sector advances also are all fully secured. Only thing is we have to be aggressive in recovery performance. Above Rs 5 Crores there are about 11 accounts which have become substandard and amounts to around Rs 205 Crores where it is fully secured and we are hopeful either for recovery or upgradation.

Vikrant Kashyap – Kedia Securities Private Limited – Mumbai

Okay, so going forward in coming quarter we can expect a stable numbers on asset quality if not improving?

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

Yes, stable numbers or the numbers will start further receding down.

Vikrant Kashyap – Kedia Securities Private Limited – Mumbai

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Okay Sir, thank you very much. That is all from my side.

Pritika – Moderator

Thank you very much Mr. Kashyap. The next question comes from Mr. Ganesh Shetty an individual investor from Mumbai. Mr. Shetty you may ask your question now.

Ganesh Shetty – Individual Investor - Mumbai

Thank you for the opportunity. Our retail bank revenue has dropped from 614 from last quarter to 533 Crores this quarter and we are actually concentrating more on retail side of our business and can I please know the reason behind it Sir? Sir drop in our retail banking business Sir, can I please know the reason for that.

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

No. Retail banking revenue has come down but retail banking business has gone up, so these business has come in the last month of this quarter and the impact would be in the second quarter and we are aggressive in housing loans, housing loans the growth is good and we have reduced the interest rates on housing loan to 9.7 per cent to attract the customers and also to increase the net interest income. SME sector we are doing well, we have shown an improvement of around 50 per cent increase in our advances like that in mortgage loans we have shown improvement and revenue naturally has come down because we have reduced our MCLR but we are making in some other sector for this and overall, there will be improvement that is why, our net profit has gone up by from Rs 109 Crores to Rs 121.54 Crores increase of 11.16 per cent and even though the yield on advances has come down drastically and cost of deposits also come down compared to the yield on advances by about 50-basis points we have maintained the spread above 4 per cent and this will take care of our net interest income.

Ganesh Shetty – Individual Investor - Mumbai

Yes, Sir net interest margin stood at 2.55 whereas you are expecting it to be around 2.75, and our deposit cost have also come down in a good way so can you expect that NIMs can move up on coming quarter Sir?

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

Yes definitely, I had given a guidance that by March 2017, it will be somewhere near 2.8 per cent which we are hopeful of reaching.

Ganesh Shetty – Individual Investor - Mumbai

Our IT initiative has really taken well for the last so many quarters and ours is one of the best managed and best IT serviced company so are we still making substantial investment in our IT spending and how it is helping us in or increasing our revenue? That is all from me Sir. Thanks a lot and all the best.

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

We have been investing further in IT, in fact we are going for the upgraded version in Finacle from version 7 to version 10. It will be over by another one year. Once we move we get lot of benefits out of that, for this there will be substantial investment and the software is also costlier and we will be investing on it to get better returns.

Ganesh Shetty – Individual Investor - Mumbai

Okay Sir. That is all from me. All the best Sir for the coming quarters.

Pritika – Moderator

Thank you very much Mr. Shetty. The next question comes from Mr. Shubranchu Mishra from Anand Rathi Securities Mumbai. Mr. Mishra you may ask your question now.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Good evening Sir. Thank you for the opportunity. Sir I have two questions, the first one is just a follow up of what it was asked earlier the yields on advances are falling any specific reason apart from the housing loan where you have reduced the interest?

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

No. Yield on advances has fallen because from April 1 2016, we have moved into MCLR concept. We have been sanctioning loans for AAA rated companies at the rate of 9.2% to 9.5%. These advances get the better returns on our resources and this may be one of the reasons. There will be migrations from base rate to MCLR during this period also. Impact may come in this quarter. There are lot of requests from the existing customers to reduce the interest rates which we have been doing on merits otherwise we may loose these accounts and we are into reduction of interest rate in the case of good accounts and in case of bad accounts we are resistant in some cases those accounts may move from our banks to another banks. But still, we are having an eye on the cost of deposit also, the cost of deposit has moved down from 7.67 per cent to 6.95 per cent, there will be much migration in another six months about Rs 4000 Crores of deposit is going to be repriced which will definitely see the cost of deposit to come down.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right Sir, any guidance on that Sir, if you want to quantify the cost of deposit how much could it comes down?

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

What we do is that we are safeguarding the interest spread at about 4 per cent.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

So Sir, now that you have said that there has been MCLR has kicked in and that is negating the yield; however, it has only been like 3-odd months so what would be the proportion of your advances, which have MCLR right now?

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

No. the MCLR proportion is only I think hardly about 5 per cent that has moved from base rate to MCLR, whatever we are sanctioning now presently are all the MCLR rates only, MCLR plus spread. These migrations will take place slowly and even in the case of migration also we would not see any difference in interest rates it will be hardly about 10 basis points to 25 basis points.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

So what would be your guidance say on a full year basis, what percentage of your advances would now get shifted to MCLR and how much would you it hit you in terms of your yields?

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

The MCLR migration may be maximum to the extent of another 10 per cent in this year and wherever renewals of the working capital happens those will be at MCLR rates only, so I think 10% plus another 10 per cent about 20 per cent will be migrated to MCLR regime.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

That answers one of my questions. Second Sir, I have noticed high opex in other operating expanses as well as high employee cost any specific reason for this Sir? As in your cost to income is somewhere around 51% it was close to around 53% in fourth quarter so any specific reason for this?

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

See the employee cost is the derivative of various items including pension, actuarial provision all that, pension, gratuity and leave encashment, actuarial provision and we had to provide for the actuarial provisions to the extent of Rs 9.2 Crores more than the last year, it is over and above the last year's figure and we have recruited considerably this year and those expenses plus DA has raised considerably in this year-on-year from last June to this June about 10 per cent to 15 per cent there was an increase in DA. All these have resulted in our

Karnataka Bank Limited First Quarter Ended June 30, 2016

establishment cost to go up from Rs 100.26 Crores to Rs 128.03 Crores and this is not a concern at all. This is a thing which happens in a growing organization. The other expenses, yes, from Rs 111 Crores to Rs 149 Crores and these are ATM-related expenses because we have gone aggressively in ATM expansion but some of it is reflected in the income side like charges which we recover from the ATM acquired business.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Okay. Sir if you can quantify the amount of fresh recruitment this year and they are mostly in the front office for your asset side or how was the recruitment like?

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

This year we have increased our staff net by 410 and recruited 628 staffs during the year, so this is the number and these are requirements because we have increased the number of branches by about 50 in number and for growing business we have to recruit staffs and hence we will have some control this year and reduce the expenses.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Okay. So any guidance on cost to income for the next few quarters or the full year Sir?

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

Yes, last March I have told the guidance is 45 per cent by 2017 March.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right and you mean this will taper down going forward every quarter-on-quarter?

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

By 2017 it will be 45 per cent now it is 51.41 per cent we can come down to 45 and by 2018 we may come down to around 40 per cent.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right. And Sir just a follow up question on the previous question, you said that you would be investing in IT and you would be going into Finacle version so what is the quantum of this investment and how do you see this benefit if you can quantify it for me Sir?

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

Yes, it all depends on how Infosys quote the rate. It is in the negotiation stage and we will try to squeeze this expense quite heavily and it all depends on our ability to negotiate and it is not the only one but we may have to spend about another around Rs 8 to Rs 10 Crores on other expenses so whatever is required to be done we will definitely do so that whatever expenses we have spent on other areas would give good return.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right, and this would be all through out this year this particular investment? So this particular investment into IT, it would be phased out throughout the year Sir or it will be one chunky investment in a particular quarter?

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

Yes, it is the capital investment, which would be immediately accounted.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right Sir. Also Sir any specific reason for a very low tax, this time?

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

Yes, we have the tax benefit because of the higher provisioning that we had provided about Rs 134 Crores, we have also technically written off around Rs 30 Crores to Rs 35 Crores there also we got the benefit of tax.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

All right. Sir if you can give me a break up between your recovery and your upgradation?

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

As far as the recovery is concerned total reduction is Rs 127.68 Crores out of recovery by way of cash as well as by upgradation it is Rs 88.19 Crores and write off, these write off also which is major technical write off Rs 39.49 Crores recovery is Rs 88.19 Crores.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

And upgradation Sir?

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

Recovery means upgradation and cash recovery.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Okay, so how much, what I am trying to ask is how much of the cash recovery and how much would be the upgradation?

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

Upgradation is Rs 31.69 Crores recoveries are Rs 56.50 Crores.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

And any CASA guidance that you would have Sir?

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

Yes, CASA guidance we want to move it to 27 per cent by year-end but we are already at 26 per cent. If the SB growth is in the same percentage as it has grown in the first quarter at around 17.7 per cent I think CASA will definitely cross 27 per cent.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

This particular growth that you have seen in deposits do you think this will accrue from the NRI deposits or the domestic deposits?

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

No. domestic only. We have guidance for this year of a deposit growth at 13 per cent and advances growth at 16 per cent.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

I could not follow the deposit growth Sir.

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

Deposit growth around 13 per cent.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

And Sir, just one more question any thoughts on having a wallet or any tie-up with the payment bank that you envisage in the future?

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

No as of now we have not thought off.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

All right. Thank you for your time and best of luck for the future Sir.

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

Thank you.

Pritika – Moderator

Thank you very much Mr. Mishra. The next question comes from Mr. Chinmay Desai from Anvil Shares and Stock Broking Mumbai. Mr. Desai you may ask your question now.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Hi Sir, actually on this whole yield of on advances movement down by 50 basis points I mean there is hardly any what you are saying is on the MCLR hardly any percentage of your loans are on the MCLR so I mean this sharp 50 basis points reduction seems quite a lot actually so if you could please explain it a little bit more in detail?

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

Yes, see this is a one-year period issue we are talking and there were reduction in base rate in that year by 50 basis points at two tranches by 25 basis points each this is also the reason and if you look at March 2016 yield on advances was 11.33 , from 11.33 it has come down to 10.98, 35 basis point reduction in this quarter that is after going for MCLR regime.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir in that case what is giving us the confidence of moving to 2.7% NIM by Q4 FY2017?

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

Yes, 2.7 per cent

Chinmay Desai – Anvil Shares and Stock Broking, Mumbai

Sir I believe it's an exit NIM that you are targeting at 2.7 not the cumulative NIM right?

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

Yes, definitely. See because here afterwards there will not be much migration from base rate and migration if at all happens also there will be reduction by say as I told you about 10 to 20 basis points in interest rate and we are now concentrating in recovery of NPAs and this will give us unrealized interest recovery also and all this will make us our yield on advance better.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Right. Sir and on the amount of deposit that are coming for re-pricing that you said was around 4400 Crores is that right over the next two quarters?

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

Next two quarters, yes.

Chinmay Desai – Anvil Shares and Stock Broking, Mumbai

Sir and on this tax rate I am unable to understand because nobody is deriving such benefits out of write offs currently what are we trying, out of provisions I do not think no other bank is having such lower tax rate at currently, what is the benefit that is accruing to us?

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

There is a legitimate reduction in the provisions and write offs are taken into account for tax benefit as well as write offs whether it be technically write offs or other write offs we are taking into account and this we have been doing, all banks are doing and if you want some clarification you can write to us we can give you the clarification.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

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Sure Sir. Sir and on this break up of, can you give me the breakup of the provisions for this quarter in terms of NPAs standard assets and investments?

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

Yes. I will give you the breakup of the provisions for this quarter and for the last quarter. See provisions for diminution in fair value on restructured advances -Rs 3.58 Crores that means we got the benefit, last quarter it was Rs 8.70 crore. Provision for nonperforming advances Rs 134.34 Crores and for June 2015 it was Rs 86.12 Crores, provision for standard advances it is Rs 6.72 Crores as against Rs 8.52 Crores for June 2015. Provision for depreciation investment there was no additional depreciation for this quarter and last quarter it was Rs 12 Crores and provision for all others is minus Rs 1.17 as against to 0.50 then provision for tax this quarter it was Rs 4.07 crore and for last quarter it was Rs 13.84 crore so total comes to Rs 140.38 crores as against Rs 129.68 Crores.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir and on this cost growth would this be the normal run rate of staff cost that you are probably expecting during the year around 120-130-odd Crores?

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

It is on the same line. Around every quarter it varies from Rs 120 Crores to around Rs 110 Crores and it all depends on the 10 year GOI yield in which case the actuarial estimation changes and for gratuity for pension and other this actuarial estimation changes otherwise it is a normal growth.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir I agree, but the yields are not expected to move up anytime soon so can we assume 130-odd Crores of....

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

Yes, if it does not move up, we stand to gain.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

And so the other opex I mean the growth has been pretty strong on a Y-o-Y basis around 34-odd% you will see that kind of growth continuing Sir?

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

Other incomes you are telling know?

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

No other operating expenses other than employees cost.

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

Yes, other operating expenses as I told now this year we are targeting on ATM expansion of around 275 and other than that branch expansion we have reduced by ten numbers this year we are opening 40 branches as against the 50 so there may not be much and we are containing the expenditure in other areas. We have almost told all our branches to restrict the expenses to the last year's figure, I think with this I think we can have a break, put a break for increase in other expenses.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir why I am asking this is because Sir, our revenue growth has not been as strong if you exclude the treasury income this quarter and if you continue to grow our opex at 30% then probably our cost to income ratio may not move down to 45% that we are talking about so if you can kindly I mean the guidance on 45% is fine but and if the cost growth continues in this manner then probably we may not be able to achieve that kind of growth?

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

Yes, you please look into the other operating expenses for March 2016. It was Rs 169 Crores. It has been brought down to 149 Crores in this quarter. You would have seen that. So, there is a reduction of around 20 Crores in this quarter and if we control these expenses definitely as per your wish definitely the other expenses will come down.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir and on advances I mean are we seeing any, I mean I know you have said that we have an outstanding sanction limit that is pending with us but I mean are you seeing those going to be in drawn down and how confident are we about this target of growing advances around 16%?

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

We have sanctioned these advances with a very competitive rate, these are all AAA rated or AA rated companies and definitely the companies will draw these depending on their requirement. In some cases the documentation is pending, which I think by September whatever we have sanctioned is likely to be drawn and which will be adding to our advances portfolio then this quarter the business growth as we have contacted all the branches and even we have told them that whatever shortages they had in the June quarter they have to compete it by at least August 15 and reach the September target by September 15 and we have confidence that all the branches will reach and we have provided them sufficient staff for meeting the increased business and with this I think we will reach all our targets set for this year.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Right. Sir what is the outstanding RIDF book currently?

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

RIDF outstanding is Rs 1331 Crores now as against last year outstanding of Rs 1728 Crores, in March outstanding was Rs 1347.49 Crores.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir and current yield on this book?

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

It is reducing and yield stands at 5.16 per cent.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir I will get back in queue. Thanks.

Pritika – Moderator

Thank you very much Mr. Desai. The next question comes from Mr. Kashish Shambhwani an Individual investor from Jaipur. Mr. Shambhwani you may ask your question now.

Kashish Shambhwani – Individual Investor - Jaipur

Good evening Sir.

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

Good evening.

Kashish Shambhwani – Individual Investor - Jaipur

Sir we have lot of NPAs and restructured assets in Infra, Textile and Metal sectors so could you please give us an update regarding that?

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

Update is that the restructured advances has come down from March itself from Rs 1807 Crores it has come down to Rs 1759 Crores. In fact last June it was Rs 2203 Crores you know the reason is because of this UDAY

bonds. As against outstanding Rs 1759.24 Crores, we have NPAs of Rs 261.54 Crores. In this Rs 1759 Crores, I think by 2017 March few accounts are likely to be upgraded for the satisfactory performance status and this will move out from the Rs 1759 Crores portfolio and restructured during the year was around Rs 8.50 Crores only during the quarter and the restructured account as of March 2016 turned to NPA was around Rs 37.57 Crores. I do not think we may be having any accounts to be added to the restructured portfolio unless otherwise we have some bigger accounts, which are in the pipeline, but still we are managing those accounts. So I think this Rs 1759 Crores figure will stand and it will improve upon by migration to the satisfactory performance by March 2017. And our S3 portfolio has also, compared to last year has come down considerably and that we are at a comfortable zone.

Kashish Shambhwani – Individual Investor - Jaipur

And Sir what is the return on equity we are targeting?

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

Return on equity now it stands at 12.96 per cent and we are improving upon that so our net profit we are targeting in the same range slightly improved position, we are targeting an operating profit for this year of Rs 950 Crores so it all depends on provisioning if the slippages we control then we can increase a net profit definitely and then ROE will definitely move up we are targeting at a level of 15 per cent.

Kashish Shambhwani – Individual Investor - Jaipur

Thank you.

Pritika – Moderator

Thank you. The next question comes from Mr. Shreyas Bhuahanwala from Sushil Finance Mumbai. Mr. Bhuahanwala you may ask your question now.

Shreyas Bhuahanwala – Sushil Finance – Mumbai

Good evening Sir. Sir one question first was on slippage's front we saw around 336 Crores slippages so from restructured the slippages what was 37 Crores if I am not wrong?

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

Yes.

Shreyas Bhuahanwala – Sushil Finance – Mumbai

Secondly Sir you said there is two three chunky accounts from jewelry are slipped into this quarter so what would be the quantum total quantum of this two three accounts?

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

Two-three accounts total quantum is around Rs 135 Crores.

Shreyas Bhuahanwala – Sushil Finance – Mumbai

Sir you mentioned there are eleven accounts totaling to around 200 to 210 Crores which are fully secured that are also slipped into this, Sir how do you see the asset quality panning out over the next two three quarters?

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

Yes, I can say that the worst is over now and these accounts also ten to eleven accounts we have good collaterals with us I think with much persuasion we can go for good recovery as well as upgradation and also in the already NPA added accounts up to March 2016 we are also trying to recover good amount both by asset sale as well as with the negotiations for OTS there also lot of good collaterals are there, two three accounts I think we are definitely trying to upgrade those accounts and all these are positive side and we are hopeful that our NPA position should really improve and we will come down drastically in the gross NPA and net NPA levels.

Shreyas Bhuahanwala – Sushil Finance – Mumbai

Okay, so we do not foresee any major accounts standard accounts slipping into NPA or anything like that?

P. Jayarama Bhat – Managing Director and Chief Executive Officer - Karnataka Bank Limited
No.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

Okay. Sir any guidance on the credit cost front for the full year? Provisions on your advances

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

Around Rs 200 to Rs 220 Crores, now it is Rs 134 Crores, additions may be around another Rs 70- Rs 75 Crores.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

For the full year?

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

Yes. As of now our NPA cumulative provisions stands at Rs 465 Crores for that we may add another Rs 75 Crores.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

Okay so for the full year it would be 200-220.

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

Yes.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

Okay, and Sir lastly on the advances front if I am not wrong you stated that SMEs increased by around 50%?

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

Yes.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

So Sir what would be the similar increase for the corporate and retail excluding SMEs?

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

No. Corporate as it stands we are going only for 'AAA' and 'AA' accounts otherwise we will restrain or refrain from sanctioning loans to corporate and our mission is that we will have retail at 55 per cent and corporate at 45 per cent that we stick on to that guidance and now as on date as of June 30 2016, our corporate stands at 47.92 per cent, which is inclusive of food credit and retail stands at 52.08 per cent. So we want to see that corporate goes down to 45 per cent and retail comes up to 55 per cent. This is our target. This retail and corporate definition means advances of Rs 5 Crores above Corporate and advances of Rs 5 Crores less is retail.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

Right, so for this quarter what growth we have seen in corporate and retail in the advances front?

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

Yes, this quarter we have added some corporate and still the corporate as of March 2016 it was standing at 47.23 per cent it went up to 47.92 per cent because we went for some good corporate advances 'AAA' rated and we have lent at about Rs 800 to Rs 900 Crores under that sector but equally we increased our retail advances also it was almost 50-50 as far as the increase is concerned.

Shreyas Bhuvanwala – Sushil Finance – Mumbai

That is it from my side. Thank you.

Pritika – Moderator

Thank you very much Mr. Bhuahanwala. The next question comes from Mr. Shubranchu Mishra from Anand Rathi Securities Mumbai. Mr. Mishra you may ask your question now.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Thank you for the opportunity Sir. Just a few follow up questions Sir. Now that you are saying that your recruitment is done and you would be expecting further growth would the productivity level per employee that you are expecting over the next few quarters be a full year guidance Sir?

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

Employee turnover as of date our business per employee last June it was Rs 10.19 Crores now it is Rs 11.12 Crores and business per branch it was Rs 114.54 Crores as of June 2015 and it has gone up to Rs 117.94 Crores and we are also having an eye on the digital banking that is, as of now our digital banking transactions happening is around 55 per cent. We want to increase it to 60 per cent by this year end and if you have read our vision 2020 document we want to increase it to 80 per cent to 85 per cent in such case the business per employee and all that will certainly go up and we are targeting a business per employee at around Rs 15 Crores by another two years.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Sir two years is a little far off, what about 2017 Sir?

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

Yes, far off but we have a target for that.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Any guidance for 2017 Sir?

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

I will come back, you just give your e-mail we will give the figure.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Sure. And Sir you said that there have been certain bonds that have been issued against UDAY so what was the total outstanding for Discoms and how much have you initiated as bond?

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

Bonds outstanding is around Rs 145 Crores. Per employee turnover what we have told that our target is around Rs 12.15 Crore for this year. And as far as UDAY bonds are concerned, total outstanding stands at around Rs 300 Crores.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

300 Crores is the total outstanding that has been taken up as bond?

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

Yes, other than SLR bonds.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Okay and everything else that will accrue to this UDAY bond in the coming quarter?

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

No we have finished all our outstanding there.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Okay and what would be yields like on these bonds Sir?

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

My treasury head says it is 9.75 per cent .

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right, and Sir in terms of recovery and all that there is been some noise that has been made on this call what is the run rate that you are expecting for recovery say on a per month basis or on a per day basis so say many Crores per day or so many Crores per month?

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

Not per day, for this year we have set the recovery of other than write off around Rs 300 Crores.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

300 Crores of recovery in this full year Sir?

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

Yes, full year and this is other than asset sale. We are also targeting from asset sale also some amount and it will be added to the total.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

So any possessions or any asset sale that has happened already?

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

Last quarter we did not have and we are trying for that in this quarter.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

So any quantum for that Sir?

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

Quantum as it comes we will be talking to the asset recovery company it may be one to one basis or on pool basis so the negotiations have just started and we are not giving a target, as it comes depending on our realization of the money we are going for that and if it too less then we will drop it.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right Sir and any watch list you would have any quantum on the watch list Sir?

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

Watch list for sale of assets or what?

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Yes, bad assets?

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

Yes, this S3 account, for all banks watch list accounts are there but for watch list for us is in the positive side.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

So what is the quantum for that and how many accounts?

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

Quantum I cannot say but two three accounts to the extent of around Rs 150 Crores are in the watch list and we hope that it will be positive.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Okay and any sector that you can specify for these three accounts Sir?

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

It is the export sector.

Shubranchu Mishra – Anand Rathi Securities - Mumbai

Right, thank you so much for your time Sir.

Pritika – Moderator

Thank you very much Mr. Mishra. The next question comes from Mr. Chinmay Desai from Anvil Shares and Stock Broking Private Limited. Mr. Desai you may ask your question now.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Just one last year we added some 410-odd employees now this year what are we I mean net basis what are we targeting this year do you think that similar kind of run rate will go ahead?

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

We have increased the number of branches and all I think the net increase may not be that much. We are at 7792 to be exact including all, officers, clerks and staff, part time people and all executives then I think there will be a net addition of around 300 number by this year end that i.e. 2017 March.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

300-odd people?

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

Yes.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir do you have any quantum on your SMA to outstanding?

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

Yes, I told you know SMA 2 outstanding is around Rs 1500 Crores.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Okay Sir that is about it from me.

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

Yes, you have gone through our review?

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Yes Sir. I have gone through your review in details.

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

How did you take the results?

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir just I was saying the cost growth seems a little high so I was a little worried because it is a little higher as compared to our revenue growth if you exclude your treasury gains probably you are little higher.

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

Do not exclude, these are all genuine gains.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir I agree but treasury gains obviously this benefit has been because of the movement in the yields this quarter may not be a continuing kind of a phenomenon and even if you see our business growth its much higher than our business growth which is something that is a cause of worry.

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

Yes, in fact we have increased our fee-based income also. It is not only trading profit fee based income has also gone up by 22 per cent. That is on account of our advances growth in which case we get a lot of processing charges and other charges so there also we have moved up.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir in that are you seeing similar kind of growth I mean would you see a 20% or what would be the kind of growth or would it grow in line with our balance sheet?

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

See we are targeting credit growth of 16 per cent to 17 per cent and this should happen.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

It should happen around 16%-17%.

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

Yes.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir just on this whole staff growth, I mean staff growth probably is something that we may not be able to control but on the other opex also, probably the growth if we are able to contain?

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

I answered one of your questions.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Yes, you already did I am just saying for the year may be if we can do some saving?

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

This is one aspect, which we discussed at the board level also, and board has also asked us to any areas where we can cut short the cost and a committee has already been formed. They are looking in to this and we will definitely see that other operating expenses come down.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Sir I believe it Sir in the breakup of provisions 134-odd Crores is NPA provisions that works to around 160 basis points on an annualized basis I mean you already said that you will just add may be another 75 to 80 I mean in that case you will be seeing significantly lower slippages in the ensuing quarters right?

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

That should be our target, yes.

Chinmay Desai – Anvil Shares and Stock Broking - Mumbai

Karnataka Bank Limited First Quarter Ended June 30, 2016

Thank you for now Sir.

Pritika – Moderator

Thank you very much Mr. Desai. At this moment we do not have any more questions in queue. I now hand over the floor back to Mr. Bhat for the final remarks.

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

Thank you very much for your all queries and guidance also. As targeted we will move forward and I am hopeful that we will give you better numbers in the coming three quarters. Thank you very much.

Pritika– Moderator

Thank you Sir. Ladies and gentlemen this concludes the conference call. You may now disconnect your line. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.