

## **Conference Call Transcript**

**Event: Karnataka Bank Limited Second Quarter Ended September 30, 2015 Conference Call**

**Event Date/Time: October 31, 2015, 11:00 AM**

**CORPORATE PARTICIPANTS**

**P. Jayarama Bhat**

Managing Director and Chief Executive Officer - Karnataka Bank Limited

**Mahabaleshwara Bhat**

Chief General Manager – Karnataka Bank Limited

**CONFERENCE CALL PARTICIPANTS**

**Ganesh Shetty**

Individual Investor - Mumbai

**Niraj**

NSR Global - Mumbai

**Shraddha Sheth**

Kolkata

**Chinmay Desai**

Mumbai

**Nikhil Rungta**

Mumbai

**Pratik M**

Nagpur

**Rishindra**

Delhi

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**PRESENTATION**

**Geeta – Moderator**

Good morning, ladies and gentlemen, I am Geeta, the moderator for this conference. Welcome to conference call of Karnataka Bank on Financial Year 2016 Q2 results. Mr. P. Jayaram Bhat, Managing Director & CEO of the Bank will be your call leader. 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 in the conference. Now I hand over the floor to Mr. Bhat. Thank you and over to you Sir!

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

Thank you. Good morning to all our listeners. We have yesterday announced our second quarter results and also half yearly results. On the whole the results are satisfactory. You would have seen our analysis published in our website also. As far as quarter on quarter and year-on-year basis is concerned, there is a growth of net profit by 15.59%. That is from ₹88.46 Crores to ₹102.25 Crores and the NPA level has come down. These are the main highlights of our results yesterday. The gross NPA has come down from Rs 1060 Crores to ₹1043 Crores, percentage wise from 3.53% to 3.18% and net NPA has come down from Rs 702.24 Crores to Rs 635.28 Crores that is percentage wise from 2.37% to 1.96%.

The net addition of NPA was just around ₹10 Crores and the slippages in the NPA addition for the quarter was ₹149.29 Crores and deduction ₹139.58 Crores and in the reduction, the breakup is recovery ₹103.38 Crores and write offs ₹36.20 Crores. Coming to NII for quarter-on-quarter basis for the September quarter there is an increase of NII just by 3.24% and if you take half year there is an increase of NII by 10.90%.

Operating profit was flat from ₹162.62 Crores to ₹169.46 Crores and for the half year from ₹400.76 Crores to ₹408.48 Crores, but there was an exceptional item last year that is around 33.07 Crores that is by way of depreciation if you remove the same, operating profit has increased by 16.49%.

ROA stands for the half-year at 0.80% compared to 0.87% for the last year's half-year and for the standalone quarter it is 0.76% as against 0.72%. Yield of advances is at 11.72%, cost of deposit is at 7.69%, and interest spread is 4.03% for the quarter and for the half-year, yield on advances stands at 11.85% and cost of deposits stands at 7.67%, yield stands at 4.18% compared to 4.16% for the last half-year.

These are some of the highlights and I am ready to take any questions from your side.

**Geeta – Moderator**

Thank you very much. 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 “\*1” on their touchtone enabled telephone keypad. On pressing “\*\*1” participants will get a chance to present their question on a first-in-line basis. To ask the question, participants may please press “\*\*1”. The first question comes from Mr. Ganesh Shetty, an individual investor from Mumbai. Mr. Shetty, you may please ask the question now.

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**Ganesh Shetty - Individual Investor - Mumbai**

Congratulations Sir for better numbers this quarter and also reduction in NPA numbers. It is a great treat for all the shareholders because there are lots of banks during this quarter has reported higher number of NPA and lower number of net profit. Sir, I just want to ask you this query, how you could make this quarter where we could manage NPAs and going forward will you be able to guide us regarding in agricultural advances or metal advances, which are facing acute problems during the last three months? Will you please throw some light on these Sir?

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

Thanks for your appreciation and thanks for the confidence reposed. Regarding the controlling of NPAs what we have done is we have been attacking the stressed accounts and we have been trying to avoid slippages from the stressed account. We have created a separate department in our head office as well as in regional offices a credit monitoring department wherein after the release of the loan, the department will take care of the conduct of the account and they will watch the accounts and they will see that as far as possible the account does not go to stressed level or 60 days to 90 days delinquency level. With this we could contain as well we could also talk to the existing stressed account holders and see that the slippages come down. Slippages for the quarter was ₹149.29 Crores and also we went for recovery in aggressive manner then there was a reduction in NPA by upgradation of the account or cash recovery or sale of assets. For this quarter we have not sold any assets to ARCIL. Write off was around ₹139.58 Crores. That means only addition of ₹10 Crores that is how we could control our NPAs. Going forward you wanted a direction, yes the indication is that we are very strong in monitoring and we are trying to see that no further big accounts become NPA and at the most the minimum what we are targeting is 2.5% gross NPA and 1.5% net NPA.

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**Ganesh Shetty - Individual Investor - Mumbai**

Thank you very much Sir for the reassurance. One fundamental aspect and one fundamental change in banking industry is technological disruption, which we believe that will take place in the next five years or after five years that is digital banking coming in a big way and new generation bank like IDFC they want to have this banking as effortless as well as premise led whereas we are in year on expansion spree for the last one year. We have increased our branches all over India and it is as far as our previous banking experience is concerned, it is a very brilliant step, but going forward when this disruptive technology will come in place, ROAs getting ourselves ready for this fundamental change. As I know that our banking is one of the most technologically upgraded banks in India although it is mid banking sector, and very confident of technological upgradation and technological skills of the bank, which is much, much ahead than even some of the large scale new generation banks, but I want just your confidence or your growth ahead or vision ahead regarding this disruptive fundamental change in banking industry. Can you please throw some light on these?

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

Thank you for your compliments once again. I think you would have read in the paper that we got an award from IDRBT for evangelizing the technology adoption in the small banks. We received the award from IDRBT recently and we are going ahead in our technology innovations. I will hand over this to my Chief General Manager, who is in-charge of IT. Over to my Chief General Manager, Shri Mahabaleshwara Bhat

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**Mahabaleshwara Bhat – Chief General Manager, IT – Karnataka Bank Limited**

Mr. Ganesh Shetty good morning. Nice to hear from you, because lot of information, you know better than us. The one thing about Karnataka Bank is we are first generation bank with a new generation technology. This we are practicing right from the beginning ever since our core banking solution was introduced about 15 years back. By that time, you may be aware that even some of the big nationalized banks have not gone for CBS and your Karnataka Bank has gone for the same so we have that early mover advantage, but considering our customer profile and all such things, we had to adopt the technology in a very phased manner that is why we all started with to begin with the ATMs, then we went ahead with internet banking, mobile banking, missed call solutions and recently the e-banking and especially the e-lobbies and all such things. The acceptance of these technologies by our customers irrespective of their age group that has been really encouraging and that is why the latest e-lobbies, what we have introduced since March 2015. So for the current year we

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have plans of opening about 25 of that, 12 have already been opened and today another e-lobby is getting opened at our Hubballi. The response has been tremendous. In the e-lobbies we are providing four types of facilities. One is as usual ATMs and also the cash deposit machine that is the cash deposit facility, cheques deposit facility and also the passbook update that is the passbook printer. So these things we will take it forward and added to that a lot of Apps are also being introduced. You maybe aware that we have introduced the m-passbook App, another one is our KBL apna App is also introduced. The mobile banking solution, which we have introduced about two years back has been one of the fine mobile banking applications and it is being broad based now. So considering the customer's requirement and the change in technology so as to adopt all these things what we have done at the corporate level is, we have constituted one separate department for this, and this is called as IT Bus cell. That is IT enabled business solution cell. It is a new department that we started during the current year, so I think we should be able to come up to the expectation of our customers. It is not only satisfying the customers as per the technology is concerned, but also delighting the customers with our technology based solutions.

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**Ganesh Shetty - Individual Investor - Mumbai**

Thank you very much Sir. Congratulations to team Karnataka Bank. That is all from me.

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**Geeta – Moderator**

Thank you. The next question comes from Mr. Niraj from NSR Global, Mumbai.

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**Niraj – NSR Global - Mumbai**

Sir congratulations on your excellent set of numbers. Sir, I would like to highlight especially on the NPA, the way the bank is taking on NPAs in a very excellent mode. Sir, I would like to know if the payment banks that are coming up. How we are going to access it and how we are going to package that?

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

This is a common question, which is being asked by everybody for the existing bankers when the new banks come up, but we have got our own niche area and we do not have much impact on this and we have got our own trusted customers and we have got all the payment systems, Alternate Delivery channels and everything. So with this we have to face the competition, but we are sure that it may not impact much on us.

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**Niraj – NSR Global - Mumbai**

Secondly, I need to know given the main thrust on continuing the NPAs which sectors can you highlight the sectors, which are affecting our base? Like which sectors the NPAs are affected more.

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

Regarding sectoral exposures, priority sector around 47.37% and non-priority sector 52.33%. Mainly the industrial sector in priority sector we have got industrial sector 20.72% and non-priority sector 16.09%. Mainly in this sector 36% goes as NPAs then services sector around 20%, agricultural sector around 11% and other sector coming altogether comes around say about 30% to 35%. So with these sectors we do not have any concentrated sector as such, but mainly industries when we lend there are chances of delinquencies and that is why we are broad based and we are giving the thrust for retail loans. If you look at the last year's September 2014, our corporate to retail was in the ratio 51:49 now as of September 2015 it is 51 retail and 49 corporate. So we are giving thrust for retail advances. With this I think our NPAs will definitely come down and even if the account becomes NPA here and there, it is easy for recovery.

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**Niraj – NSR Global - Mumbai**

Sir, can you give a guidance for the next six months time? What can be the target for our NPA control?

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

I had just told the gross NPA we are targeting around 2.5% or even lesser than that and net NPA 1.5% even lesser than that. This is our target.

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**Niraj – NSR Global - Mumbai**

Sir, any update on the QIP that we had planned?

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

We have not taken any steps to go into QIP now because as you know or as you have read in the paper the advances growth is not up to the expected level, in fact in our own case, advances have grown year-on-year by just 9.17% and going forward with this busy season we expect the advances to grow in which case we may have to go for QIP maybe early next year because now our CRAR that is capital adequacy ratio as per Basel II is 11.95%, which is comfortable and with the expected advances growth, we will decide.

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**Niraj – NSR Global - Mumbai**

Thanks again for excellent set of numbers and congratulations once again for the good work Sir.

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

Thank you.

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**Geeta – Moderator**

Thank you. The next question comes from Ms Shraddha Sheth from Kolkata.

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**Shraddha Sheth - Kolkata**

Congratulations Sir on a good set of numbers. I had a couple of questions. I wanted to understand the effect of base rate calculation change on your NIMs going forward? Second thing wanted some idea on your slippages as in which sector it was, you said gross slippages were ₹149.29 Crores around this time? So which sector would it be and is there any chunky big accounts in that? Third thing, I just wanted to know the outstanding amount of RIDF?

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

Additional slippages under priority sector the sectoral NPA addition is around 60%, and non-priority sector around 40%. In the industrial sector it is around 35%, out of the additional NPA what I am telling industrial sector about 35% and services sector about 21% and agriculture sector is around 18.72%. The total slippages was around ₹149.29 Crores in this quarter. The amount wise priority sector is ₹57.80 Crores and non-priority sector ₹91.49 Crores. Agricultural sector the amount was ₹16.57 Crores. Your next question is on base rate impact. Base rate we have revised twice during the last three to four months from June 1<sup>st</sup> we have revised downwards by 0.25% then from October 5, we have revised down by 0.25%. Simultaneously we have also reduced our interest rates on deposits. It was almost reduced from around 9% to 7.75%. So this being the case, I think there may not be additional impact on our NIM because the reduction in cost of deposits even though it is not across the board, but as the reduction in cost of deposit was aggressive and the reduction in the base rate was just by 0.5% this will take care of the NIM and the NIM will be at least on the same position by end of March 2016.

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**Shraddha Sheth – Kolkata**

Okay, sure sir. Just one more thing on NIM calculation, the transfer of rate is through the system, I am just talking about the marginal cost of funds being taken in to account for base rate calculation, would that affect your NIM going forward.

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

We have not received any final circular from the Reserve Bank as to what is the methodology of calculation of the base rate. We are anticipating their circular. Once it comes then we will calculate our base rate but I think when we calculate our base rate it will be almost at the same level as what we are now. RIDF position as on date is ₹1704 Crores, it is coming down, in fact for the September 2014 it was ₹2090 crores, now it is ₹1704 crore, in fact you would have observed,

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the yield has gone up in the RIDF Investment, RIDF investment the yield has gone up from 4.75% as of September 2014 to 5.02% as of now.

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**Shraddha Sheth – Kolkata**

Sir, how much of the amount do you see recovering from RIDF in the next six months as in H2, how much of reduction?

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

The same level as in the past, maybe around another Rs 200 Crores will come by the end of March 2016.

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**Shraddha Sheth – Kolkata**

Sir just one last question on competition from new entrants, I know in the previous participant's question you have alluded that the competition would be there but Karnataka Bank is well prepared but I just wanted to understand in terms of branch expansion many of your peers have changed their strategy and they have indicated that the amount of competition would be more rather than which they had previously thought of, so is there any change in Karnataka Bank's policy per se to tackle this competition from new entrants?

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

There is not much change in the branch expansion program. We have set a target of 50 branches this year. As per the Reserve Bank's direction, 25% of those branches should be financial inclusion branches, rest in other areas where we find that more business what we can expect from that area, so we have not changed our stand on 50 branches and 1275 ATMs, so we have not changed much after these announcements, I think our branches which are there now as well as which we are going to open are in strategic places which will definitely take care of our increasing business.

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**Shraddha Sheth – Kolkata**

Sir, any advances and deposits target for next year around.

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

We have set a target of ₹91,000 Crores of business and accordingly we have set the target, we have mentioned that in our analysis also. I will repeat those targets. It is ₹53,500 Crores of deposits and ₹37,500 Crores of advances.

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**Shraddha Sheth – Kolkata**

Sir do you see any pipeline of restructuring as in either 5/25 or any pipeline of slippages going forward.

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**Shraddha Sheth – Kolkata**

No, as of now we don't have any pipeline of restructuring, maybe one account of around exposure of around ₹150 Crores may be there, we are tackling that account and if it comes then there will be one account which will be restructured, which is a standard asset as of now.

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**Shraddha Sheth – Kolkata**

It would be in which industry or which sector?

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**Shraddha Sheth – Kolkata**

It is in rice exports.

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**Shraddha Sheth – Kolkata**

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Sir no major pipeline you see going forward?

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

This is the only one I told, otherwise no industries, no accounts which require restructuring.

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**Shraddha Sheth – Kolkata**

Sir have you done any 5-25 restructuring this quarter?

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

No we have not done.

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**Shraddha Sheth – Kolkata**

No sale of assets to ARCs also?

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

Not in the last quarter, going forward I think in the 3<sup>rd</sup> quarter we may have to go for that.

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**Shraddha Sheth – Kolkata**

Sir any approx. amount which you are looking at?

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

We are looking at an amount of around ₹150 to ₹200 Crores. , Accounts are widely spread.

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**Geeta – Moderator**

The next question comes from Mr. Chinmay Desai from Anvil Shares and Stockbroking Private Limited, Mumbai.

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**Chinmay Desai – Mumbai**

Good morning Sir, one I wanted to know on our advances target, we are targeting around 18% year-on-year growth on the advances front, given our base rate at such high levels we are probably one of the highest in the industry, how are we looking at growing this considering that we are looking at granular, retail and SME growth, this amounts to almost on an average over 7% sequential growth on our advances front if we are to meet this target, how are we looking at this?

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

Advances growth as of now year-on-year is 9.17% and in this six months period there are indications that our advances may grow and we are tackling that also and as I have told we are going for retail sector, we are intensifying our efforts in canvassing more and more schematic loans and see that advances grow, here and there some bigger accounts also, some good rated accounts also we are tracking. As you said our base rate is at 10.25% but it is not the maximum, other banks are having more than this but we have recently changed to 10.25%. I am confident that with this base rate at 10.25% we can canvas good number of accounts and good number of quality accounts.

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**Chinmay Desai – Mumbai**

But again I mean 7% growth on a sequential basis would be quite high, if you go to see, you just grow through retail, where are we looking at this growth coming?

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

I will tell you, the growth rates under MSME we have grown by 47.02% in the last year-on-year, priority sector we have grown by 17% and residential mortgages around 19.21% and even housing loan sector out of that is around 19.40% and even mortgage loans other than this is around 50%, so there are good growth in this sector and I think going forward we will tackle this except the real estate sector try to reach our expected figure at the end of the March 2016.

**Chinmay Desai – Mumbai**

Sir on the asset quality I believe we had some three to five accounts that were being considered under refinancing for 5/25, out of that you said that one of these accounts is currently under stress so which may come up in the next quarter, are there still further accounts that are being considered or just this one account?

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

This one account only, this one account is quite stable, it is in standard status only. Only thing is that we may have to restructure because there are some sales realization aspects but account is quite good, there are no hiccups and we may restructure or we may not also.

**Chinmay Desai – Mumbai**

The other thing is the concern on margin front Sir, we are at around 2.4%, our advances growth has been around 9 odd percent and we are seeing an NII growth of around only 3%, how are you looking at the margin front, this mean 2.4 are you looking at improving or how do you see this trending going forward and what will be the driver?

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

Your concern is genuine and because of the reduction in the base rate there may be impact on margins but as we have reduced the deposit rates also quite considerably and when the repricing takes place all these accounts will be repriced in the second half year because in our portfolio one year deposit is more and when these accounts gets repriced there will be considerable savings under the interest and net interest margin will be taken care. In the last conference call I had told that we are targeting NIM of 2.8%, but we may not reach that level I think we may reach around 2.6% to 2.7%.

**Geeta – Moderator**

The next question comes from Mr. Nikhil Rungta from Anand Rathi, Mumbai.

**Nikhil Rungta – Mumbai**

Congratulations on a good set of numbers. Sir few questions, first is this large account of rice export you mentioned where is it based, is it based in Delhi?

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

I have given enough information, you may come to know later, but this is enough for the time.

**Nikhil Rungta – Mumbai**

Sir what would be our portfolio in SMA 2 as a percentage of advances, how much would be SMA 2 or whatever number in SMA 2 you have?

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

I don't have the ready figure now, you can e-mail me, I will send it.

**Nikhil Rungta – Mumbai**

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How much would be the SR outstanding as on date because till last quarter I believe we had sold few assets, so how much would be the security receipts outstanding?

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

Security receipts outstanding is ₹231.40 Crores as on September 30<sup>th</sup>, 2015.

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**Nikhil Rungta – Mumbai**

Sir, just on the advances front like our advances grew by around 2% from March to September and on the risk weighted asset if I see that has grown by around 4.8% and during the quarter also like if I see the capital consumption that has been around 23 basis points like our **Tier I Capital** has come down to around 10.05 from 10.3, so from that perspective like is it that we have been growing in more busier sectors or how is it?

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

I have to check up but there is not much growth as you say in the risk weighted assets and there was a discount of subordinated bonds which I think is accounted for the reduction in CRAR.

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**Nikhil Rungta – Mumbai**

Sir on the CASA front what would be our strategy going forward and what are the targets we are building in because if I see it has remained flat since the last one two years or so, so going forward how are we placed and what are our plans for CASA?

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**Mahabaleshwara Bhat - Chief General Manager, IT – Karnataka Bank Limited**

As far as CASA is concerned you may be aware that it is hovering around 25% all along and our annual growth is also around 20% that is better than the term deposit growth also, what we are focusing more is on expansion of CASA base both current accounts and savings account not only in the urban and metro centers but all over India also including the financial inclusion branches, so our CASA campaign has become an annual event now and it is for about 100 days and this year also right from November 15 till February end we will be launching that. In that CASA campaign alone we are aiming for acquiring about 6 lakh new acquiring accounts. With the help of this CASA expansion what happens along with our alternate delivery channel products our balance for account is on constant increase, so this is the advantage, so with that we are very sure that the CASA percentage we will be able to maintain around 25% and down the line within another four to five years we have plans to improve it to around 27%.

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**Nikhil Rungta – Mumbai**

Sir, just to repeat the question which was asked by my colleagues earlier, as we are targeting good growth in the second half of this financial year that is if I look at from the September end we are targeting around 15.5% growth by March so on the corporate and retail front which individual or particular sectors we will be targeting, if we continue to focus on retail then is it that we will continue to focus more on MSME and mortgages in this next six months also.

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

Mainly the housing sector, Under housing loans and services sector and mortgages we have slightly now slowed down because of this real estate slow down, otherwise it is not fair to aggressively grow in mortgages sector even though demand is there and we will be concentrating mainly on MSME which is only priority, housing loan, then services sector.

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**Geeta – Moderator**

The next question comes from Mr. Chinmay Desai from Anvil Shares Mumbai.

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**Chinmay Desai - Mumbai**

Sir, just wanted a break up of our provisions this quarter?

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

Provisions for this quarter you want sequential?

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**Chinmay Desai - Mumbai**

No just the provision, the standard assets NPA investment and others.

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

For NPA the provision was ₹46.44 Crores, for standard advances ₹6.25 Crores, then for investment there was a negative of ₹1.61 Crores and we got a benefit in fair value calculation to the extent of around ₹16.68 Crores, so overall it is ₹35.07 Crores and after adding tax of ₹32 Crores it comes to ₹67.20 Crores.

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**Chinmay Desai - Mumbai**

Sir our tax rate has been varying quite a lot, what is the outlook for the full year, how are you looking at it?

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**Muralidhar Krishna Rao, DGM– Karnataka Bank**

The main reason for the tax variation is that because we had a higher NPA provision during the first quarter we made a provision of Rs 86 Crores during the first quarter and only Rs 46 Crores during the second quarter, so entire provision has been eligible for deduction under the Income Tax Act, so we got higher tax benefit to the extent of Rs 16 Crores in the first quarter, similarly the DTA and MTA provision that is provision made in excess of requirement is also eligible to be treated as DTA, there also we got certain benefit in the first quarter which was not available in the second quarter, so that was the reason for the variation in the tax amount.

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**Chinmay Desai – Mumbai**

But that has been the case even last year also, we have taken certain benefits.

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**Muralidhar Krishna Rao, DGM – Karnataka Bank**

Major benefit was write offs were there, this time the write offs are not there.

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**Chinmay Desai – Mumbai**

This year what we shall be paying, 25 or 30% what will it be?

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**Muralidhar Krishna Rao, DGM– Karnataka Bank**

May be because, as it is, there is not much proposal of write off, if write off is there our tax rate may be around overall by year end it may be around 20% or otherwise it may be slightly higher

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**Geeta – Moderator**

This question comes from Mr. Pratik M from Nagpur.

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**Pratik M. - Nagpur**

Good morning sir and congratulations for a good set of numbers. My question is that our provisions has come down drastically to 35 Crores, so I would just like to know any specific reason for this and what would be the trend from hereon in terms of provisioning and NPA and what was our provisioning coverage ratio?

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

Provision coverage ratio is 54.43%. Main reason for reduction in provision is as I told you is because of reduction of provision under NPA, it was around ₹86 Crores in the first quarter, now it is ₹46 Crores, I think you can take this as a trend and there will not be much changes in the investment portfolio because it has almost come to the bottom levels and only if the recovery is good then it will offset the additional provision and provision under NPA can be further reduced.

**Pratik M. - Nagpur**

Sir I missed your point of previous quarter provision coverage ratio?

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

It was 52.65%.

**Pratik M. - Nagpur**

Sir we have other income of ₹120 Crores, can you just highlight on that?

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

Yes ₹121.01 Crores, of this trading profit is ₹12.90 Crores and fee based income including exchange profit, everything comes to around ₹108.11 Crores, total put together is ₹121.01 Crores as against last year's figure of ₹102.77 Crores, breakup being ₹9.78 Crores trading profit and fee based income ₹92.99 Crores. If you take six months figure the other income is ₹240.13 Crores out of that ₹23.41 Crores is trading profit and fee based income is ₹216.72 Crores compared to the previous year's half year of ₹232.47 Crores.

**Pratik M. - Nagpur**

Sir, recently there has been a steep fall in commodity prices, so are we expecting some stressed accounts from that sector, metals and all?

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

No, we don't have much stress accounts under metals sector.

**Pratik M. - Nagpur**

Sir on return on equity, previous year same time we were at 13.3 and this time we are at 12.1, so what is your guidance regarding this ROE trend?

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

Yes, we have set a net profit of ₹600 Crores and I think we have to step up the net profit definitely, we will increase our recovery efforts, we have some technically written off accounts there also we are trying to recover much and with this I think we will show better recovery and see that our income portfolio, net profit portfolio goes up, which will definitely take care of the ROE.

**Pratik M. - Nagpur**

Sir one broader question on the economy, how are you seeing the economy and economic activity, you as bankers have a very good idea of how things are going, what is the pick up of advances and recovery trend and all?

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

**Karnataka Bank Limited Second Quarter Ended September 30, 2015**

We are expecting the economy to revive and any development in the political scene we have to see and see that this economy grows further, economy improves further and we have a strong hope that economy will improve and in the second half there will be good scope for credit growth, as of now it is quite muted and credit growth should be there, then only the bank's profit everything goes up and with the improvement in economy I think we will be in a better position to show better results.

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**Geeta – Moderator**

The next question comes from Rishindra from Delhi.

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**Rishindra – Delhi**

Hi, just two quick questions. What lead to the increase in other expenses quarter-on-quarter, the staff expenses is up by about ₹25 Crores and even the other opex is by about ₹20 Crores?

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

Operating expenses quarter-to-quarter it has gone up from ₹237 Crores to ₹258 Crores. In that the establishment expenses has come down from ₹130 Crores to ₹124 Crores and others it has gone up from ₹106 Crores to ₹133 Crores. In this others, the major expenses are on ATM related expenses and this will be offset by the other income what we are getting from acquiring charges what we are getting in our cardholders business as well some notional income in savings of the expenses under employee cost, this will take care and you may observe that other income has gone up, there are some increases in rent on premises and all that naturally, rent on premises are shooting up, we have last year increased our branch portfolio about 75 additional branches. This year we have reduced the number to 50, so with all this I think we will have control on these other expenses and going forward it will be leveraged and other expenses will come down.

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**Pratik M. - Nagpur**

If you look at the jump even in employee cost from Q1 this year to Q2 this year.

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

There is an increase in employee cost from first quarter to second quarter and this is because we took additional employee numbers in this quarter around 300 employees were increased, this is to take care of our additional branches and expected additional business as well there is increase in salary also because of the latest increase in salary and DA expenses, in our this quarter's establishment expenses. If you take half year, half year employees cost September 2014 it was ₹254 Crores and this half year is ₹225 Crores even though there are aberrations in the first and the second quarter sequentially on the whole it has come down from ₹254 Crores to ₹225 Crores.

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**Pratik M. - Nagpur**

This includes all the IBA related salary provisions etc. that is all in the numbers now?

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

Including actuarial pension, gratuity, expenses also.

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**Pratik M. - Nagpur**

So this is the steady run rate now ₹125 Crores.

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**Geeta – Moderator**

The next question comes from Mr. Nikhil Rungta from Anand Rathi.

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

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**Karnataka Bank Limited Second Quarter Ended September 30, 2015**

Sir just two more questions, what was our recovery from written off cases during the quarter?

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**P Jayarama Bhat - Managing Director and Chief Executive Officer – Karnataka Bank Limited**  
For half year it is ₹6.75 Crores.

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**Pratik M. - Nagpur**

Second is like on our branch and ATM as you indicated our rise in opex was primarily on account of increase in new branches and ATMs, so if I look at the number of branches and ATMs during the quarter we opened around eight branches and 64 ATMs but for the next half year we are talking about increasing opening up 35 new branches and 275 new ATM, so shall we expect the cost to income ratio to raise further from these levels?

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

As I told we are expanding our ATM numbers just to cover the geographical areas across the entire country. We are getting additional business by way of acquiring business where we are getting the other income also, this will be taken care and once we reach this level, I think then we may have to think over expansion, until that it is necessary that we should expand and 35 new branches also it will be in very, very important places we are opening and I think with this there will not be any much variations in the operational expenses, it will be taken care of.

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**Pratik M. - Nagpur**

So as you mentioned the run rate would remain similar what was there in second quarter?

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

Yes.

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**Geeta - Moderator**

The next question comes from Mr. Chinmay Desai from Anvil Shares Mumbai.

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**Chinmay Desai – Mumbai**

Sir one more information, we have to come out with a vision 2020 document, when is that actually coming through and any highlights of that if you can share?

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

Vision 2020 document we are finalizing by November 15th and once it is out then in the next con call we can give you the details.

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**Chinmay Desai – Mumbai**

Sir one more on gross on advances that we are talking about sir actually 46% of retail is actually trending at 8% year-on-year and the corporate book is really not growing, any significant way on year-on-year basis, how confident are we of achieving this 18%, if you can give some color because on mortgages also we are growing at 19% which is fine but that is only 12%.

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

Yes your doubt is genuine. It is a herculean task, we have to increase advances, definitely we are sensitizing all the branches and increasing the business by way of talking to the branches, giving them staff wherever is required, transfer of staff from one place to another and all that we will be doing and seeing that advances really picks up.

**Geeta – Moderator**

Mr. Bhat, at this moment nobody is there in the queue to ask the question.

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

Thank you very much for the active participation in this conference call. It was a nice experience and I assure all the participants that we will show better results in the coming half year and see that as far as possible we will try to step up the rate of increase of advances and see that there will be additional net interest income as well as we will improve on return on equity. Thank you very much for your participation.

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**Geeta – Moderator**

Thank you very much. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant day.