

Conference Call Transcript

Event: Karnataka Bank Limited Third Quarter Ended December 2016 Results Earnings Conference Call

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CORPORATE PARTICIPANTS

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Managing Director and Chief Executive Officer Karnataka Bank Limited

CONFERENCE CALL PARTICIPANTS

Mr. Nilanjan Karfa

Jefferies

Mr. Shubhranshu Mishra

Anand Rathi

Mr. Bunty Chawla

Axis Security

Mr. Viklanth Kasyup

Kedia Securities Private Limited

Mr. Jaiprakash Mundhra

B&K Securities Limited

Mr. Shreyas Bhukhanwala

PRESENTATION

Nidhi – Moderator

Good evening ladies and gentlemen, I am Nidhi, the moderator for this conference. Welcome to the conference call of Karnataka Bank Limited on Q3 and nine months ended 31st December 2016 Financial Results. Mr. P. Jayarama Bhat, MD and CEO of Karnataka Bank will be your call leader today. During the presentation time, all participant lines will be in the listen-only mode. After the presentation, the question and answer interactive session will be conducted for all the participants in the conference. I now 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. Welcome to this conference call for the results for the quarter and nine-month period ending December 2016.

We had published the analysis of our results in our website. As per that, you can see that the business growth was 12.87% Y-o-Y. Deposits growth was 15.65% Y-o-Y. Advances growth was 8.68% Y-o-Y. The average CD ratio has come down slightly to 64% compared to the 66.14%. The credit off-take in the month of December was mute and average incremental CD ratio was around 12.17%. As far as the net profit is concerned, there was a dip of 29% from ₹96.91 Crore to ₹68.52 Crore and if you take nine-month period ending December 2016, the net profit stood at ₹313.89 Crore compared to ₹308.50 Crore, an increase of 1.75%. Then, the net interest income Q-o-Q has increased by 23.48% from ₹304.93 Crore to ₹376.52 Crore, and for the nine-month period it increased by 20.71% from ₹943.14 Crore to ₹1138.46 Crore. The CASA has increased. Percentage wise CASA stands at 30.22% as against 25.23% as of December 2015 and 26.33% as of September 2016. The SB growth was robust at 46.23%.

The yield on advances Y-o-Y has come down from 11.21% to 11.06% quarter to quarter. And if you take the nine-month period, yield on advances has come down from 11.64% to 11.06%. Cost of deposit which was 7.47% as of December 2015 has come down to 6.62%, and in the nine-month period it has come down from 7.61% to 6.82%. Thereby, the interest spread has improved from 3.74% to 4.43% i.e. difference between yield on advance and cost of deposit, and if you take the nine-month period it has improved from 4.03% to 4.24%. The net interest margin which stood at 2.20 as of December 2015 has improved to 2.40 and if you take the nine-month period NIM has improved from 2.34 to 2.54. This is as far as business and related interest and other expenses are concerned.

The other income has moved from ₹132.72 Crore to ₹133.59 Crore for the quarter, and for the nine-month period it went up from ₹372.85 Crore to 497.65 Crore that is an increase of 33.47%. The operating profit for the quarter has dipped Y-o-Y from ₹191.68 Crore to ₹171.86 Crore, and if you take the nine-month period the operating profit has increased from ₹600.16 Crore to ₹666.53 Crore, an increase of 11.06%. If you take nine-month period, ROA has dipped from 0.76 to 0.70 and for the standalone quarter it has dipped from 0.70% to 0.44%. Coming to the NPA level, the net NPA Y-o-Y has increased from ₹790.63 Crore to ₹1065.66 Crore that is percentage wise it has increased from 2.41% to 2.99%. And If you take for the sequential quarter, Gross NPA has increased from ₹1344.50 Crore to ₹1560.23 Crore, and Net NPA from ₹961.37 Crore to ₹1065.66 Crore. Our CRAR on account of our rights issue as well as the revaluation of our fixed assets has improved from 11.67 to 13.19.

I am inviting questions from our analysts.

Nidhi – Moderator

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 the touchtone-enabled telephone keypad. Participants who wish to ask question may please press * 1 now.

The first question comes from Mr. Nilanjan Karfa from Jefferies. You may please ask your question now.

Nilanjan Karfa - Jefferies

Good evening Sir. I just wanted to get some understanding of how we fared through the demonetization period. If you can just give us some colour on how disbursements were in October, specifically if you can segregate further into the agricultural loans, SME, and retail, and how it panned out in November and in December, so that is part one. My second question would be to understand how is your 30 days past bucket in January, the current run rate vis-à-vis if you want to give us some colour how it was in October, November, and December, that will be very helpful.

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

During demonetization period, virtually the credit off-take was not there. In fact, the credit came down on account of this. I think if you compare our advances, for September 2016 figure was ₹36,610 Crore and as of December it was ₹35,786 Crore, so the advances have come down during this demonetization period, all the staff members right from the branches and to the head office were busy with this demonetization work and a little time was left for canvassing business, that is required to be done at the national level call. There was stress from these accounts, which we have taken care and we were monitoring well. As far as the impact of demonetization is concerned, if I am answering your question correctly, the impact is that we started getting specified bank notes which is called an SBN and it started accumulating in the branches and we being in the private sector, we had few currency chests and we could not push this cash to currency chests to take the advantage of RBI balance. So cash got accumulated in the branches and we could not push it to the currency chest or to the Reserve Bank or to our linked currency chest banks and thereby our cash was lying in our chest which was not earning anything. Whereas the amount was credited to the SB accounts or current accounts of the customers and the balance increased and our CASA balance also started increasing, and from the day of the credit of the amount we have to pay the interest especially in SB account at 4% and on account of this as we

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could not account the cash with Reserve Bank, whereas we had to pay interest for these SB accounts, we had to suffer a loss of around ₹27 Crore on account of additional investment, which if we had deployed in the money market we could have earned about 6% average. This is one impact. Then, there was a requirement of additional CRR at 100% for one fortnight whereas we had to borrow from the market. This had an impact of around ₹5.25 Crore. Then, the ATMs were almost closed and our bank was getting income on ATM hits of other banks' cards and virtually we lost about ₹12 to ₹15 Crore on account of this. We also had to spend a lot for currency movements and a lot of logistic expenses, which is around ₹10 Crore. All these impacts for this quarter which we had absorbed and in spite of this, our nine-month period net profit was more than the last year's nine-month period net profit.

Nilanjan Karfa - Jefferies

Sure Sir, that is very helpful, but what I wanted to understand is how weak was the disbursal. I understand you probably could not do any business because you did not have non-SBN currencies, but would that alternatively imply that many of these customers would have gone to competitor banks?

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

No, not at all. Everybody was busy with these activities and we have not lost our customers. The activities were not there. Lending activities were almost at standstill, and now business has already started. We could move all our currency to the currency chest right on 31st of December, and now all this has started earning and definitely it will be a silver line in this quarter as well. Our regular banking exercise of lending has started and the credit growth started picking up.

Nilanjan Karfa - Jefferies

Okay. Are you confirming that the January lending activity is close to the October lending activity? Is it still down or is it up?

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

See, what happened is there is a gap from the time the application is received at the branches and then sanctioning at the head office level, if it is a big proposal. If it is a medium type, sanctioning at the regional office level, or if it is a schematic loan proposal

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it will be sanctioned by our central loan processing centers. The things are moving now. We are getting good enquiries as our interest rates are also very competitive and I think we are hopeful now that the credit will move fast. We are also intensifying efforts in quickening the sanctioning time and see that credit goes up.

Nilanjan Karfa - Jefferies

Okay. About the second one Sir, how is your 30 days past you bucket looking like?

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

30 days is normal, no issues.

Nilanjan Karfa - Jefferies

So, nothing has moved up at or down or whatever.

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

It is normal now.

Nilanjan Karfa - Jefferies

Okay. Thank you.

Nidhi - Moderator

Thank you Sir. The next question comes from Mr. Shubhranshu Mishra from the company Anand Rathi. You may please ask your question now.

Shubhranshu Mishra – Anand Rathi

Thank you for the opportunity Sir. First of all, I wanted to know the slippages. How many accounts and what are the large slippages out of the slippages that have happened in this quarter?

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

I could not follow you.

Shubhranshu Mishra – Anand Rathi

The slippages that have happened in this third quarter how many were the accounts and how much is the corporate slippage out of the total slippages?

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

The detailed slippages in this quarter quantum wise: the total incremental number of NPA accounts is 618 accounts, the total amount was ₹266.80 Crore. Roughly if you see the break-ups, industrial sector is around 21%, large industries as well as small industries. Services sector is around 36%. Agriculture sector is around 8%. Personal loans to contractors, professionals, etc., is around 24%. This is the general break-up of slippages. If you take the entire NPA portfolio, our agriculture sector forms about 6.6%, industrial sector forms around 34%, services sector around 21%, and all others including personal, self-employed contractors, etc., around 32%.

Shubhranshu Mishra – Anand Rathi

Right Sir. What I was trying to allude was that out of the RBI dispensation that you got for accounts less than ₹1 Crore, how much of that forms part of these ₹267 Crore in this quarter?

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

That is exempted. That is they are not added to the slippages. That amounts to around ₹70 Crore.

Shubhranshu Mishra – Anand Rathi

That is part of ₹267 Crore.

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

Yes.

Shubhranshu Mishra – Anand Rathi

Any large accounts that you have?

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

One account, he is a contractor; it is around ₹60 to ₹65 Crore.

Shubhranshu Mishra – Anand Rathi

What sector is that Sir?

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

He is a contractor undertaking government works.

Shubhranshu Mishra – Anand Rathi

Okay. Any expectation of recovery in that account Sir?

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

It is fully secured and we are contacting and the account will come out of NPA.

Shubhranshu Mishra – Anand Rathi

Okay, sure Sir. In terms of your tax rate, I have been seeing very unusual tax rate for the last two to three quarters. Any specific reason for that Sir? Even this quarter, the tax rate is pretty low.

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

During this nine months ended, there were a lot of technical write-offs and substantial increase in the provision. So both have got the tax benefit for us, but our taxable profit was lower. Because of the provision of around ₹300 Crore for NPA and mostly ₹200 and odd Crore we have written off tax liability has come down.

Shubhranshu Mishra – Anand Rathi

Any guidance you have for tax in the fourth quarter?

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

We have to find out; because as it is we do not have much write-off proposals and we hope that there may not be additional provision requirement. Whatever operating profit that we are earning in the last quarter, around 34% of that may go towards the taxation.

Shubhranshu Mishra – Anand Rathi

Right Sir. In terms of your digital strategy, I was going through your presentation Sir. The percentage of ADC transactions to your CBS transactions, it is at pretty steady at 50% to 51%. Despite demonetization in the third quarter it did not spike up, any specific reason for that Sir?

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

ADC transactions we are targeting around 60% and we are moving towards that. Our business in ADC has increased. The ADC transaction is continuously on the increase. When we started this current financial year, as of March 2016, our ADC transaction was at the rate of 51%. In April, May, June, July, August, September, October, it is on continuous increase and we have now reached a level of 56%. We are planning to basically increase it by the financial year end. Of course in the month of November, there was a slight dip especially because of nonfunctioning of the ATM. Again, in the January month there is a turnaround and I think we are definitely on track. We will be able to reach our 60% ADC transaction. There has been a significant increase in case of Internet banking transactions, mobile banking transactions. In fact, internet banking transaction increased by about 30%. Net Banking transaction increased by about 191%, and mobile banking transaction amount wise it was ₹3.20 Crore as of March 2016, in

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December 2016 it was ₹16 Crore, so you can see about 400% increase. In our POS terminals, transactions increased, amount wise it is 316%, whereas the number wise the increase is 82%. We have introduced our mobile banking app and UPI, that is KBL Smartz app and all giving us good hit and considerable transactions are recording significant improvement in migration.

Shubhranshu Mishra – Anand Rathi

Okay, sure Sir. Any guidance you have for the credit cost for fourth quarter and any guidance for loan growth for the fourth quarter?

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

Loan growth guidance, Y-o-Y as of now it is 8.68%, and we had set a target earlier at 18%, and I think we have to have a target of at least 15%, we are trying our level best.

Shubhranshu Mishra – Anand Rathi

Right Sir. For credit cost Sir?

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

The cost of deposit you are asking or yield on advance?

Shubhranshu Mishra – Anand Rathi

How much of provisions for NPA, it would be best if you can give me rough guidance?

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

I think there will be a normal increase. There will not be any abnormal increase in provisions for NPAs.

Shubhranshu Mishra – Anand Rathi

Okay. Would the increase be at similar levels?

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

We have provided ₹110.99 Crore for the third quarter. This will not be to this extent. We are likely to recover major substandard advances, which is forming about 47% and here, about ₹100 to ₹150 Crore we are trying to either get it upgraded or closed. Thereby, the provisions get released also there. Some closure and some sale of assets, all we are lining up. We had planned some sale of assets in the last fortnight of December, but it has spilled over to this quarter. All these activities I think will control this provision also.

Shubhranshu Mishra – Anand Rathi

Okay. So, we are likely to see some ₹100 Crore of provision in the fourth quarter as well, that is what you are saying.

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

It may not be. If you see the provision what we have done in the second quarter, it was just ₹59.15 crore. Then, in the third quarter it was ₹110.99 crore. If you see, the last year third quarter the provision was ₹61.88 crore. Also, in this quarter, provision of ₹110.99 Crore is partly on account of migration of the accounts from substandard to doubtful category.

Shubhranshu Mishra – Anand Rathi

Okay, sure Sir. Thank you so much for your time Sir.

Nidhi – Moderator

Thank you Sir. The next question comes from Mr. Bunty Chawla from Axis Security. You may please ask your question now.

Bunty Chawla - Axis Security

Thank you for taking my question. In this quarter, we have seen that the recovery and upgradation have been very severely impacted. Last quarter was around ₹250 to ₹260 Crore and this quarter it is just ₹50 to ₹52 Crore of the recovery and upgradation. So can you throw some light on that part and for the Q4 as well?

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

This quarter as you know is an unusual quarter because all of our staff were busy with demonetization exercise, so recovery was at a standstill. Just now I told that some asset sales have not taken place which we had planned. It has spilled over to this quarter. Out of asset sales, gross NPA can be recovered up to the extent of around ₹250 Crore. We are intensifying our cash recovery also. We have sent teams to various places and with this I think we will be having more of recoveries rather than slippages, and we will definitely see that our gross NPA is brought down on account of this.

Bunty Chawla - Axis Security

Okay. Can we expect a Q3 run rate of ₹250 to ₹260 Crore, which were there in Q2 quarter?

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

Q4 Yes, you are right.

Bunty Chawla - Axis Security

On the ₹250 to ₹260 Crore, we can do the recovery as well.

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

Yes.

Bunty Chawla - Axis Security

And one more thing, we have observed that in other income Q-o-Q per se it almost flat. If you compare with other banks, much of the banks have got the benefit of the yield on their SLR bonds. So have we sold any or have we not done other income part over there?

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

Yes. We are at it now. We had set some targets for other income and if you look at the total other income and trading profit for nine-month period, it has increased from ₹43.37 Crore to ₹140.31 Crore,. In this quarter also, as yield level is very buoyant we can do some profit and we are targeting another ₹100 Crore in this quarter.

Bunty Chawla - Axis Security

Profit on sale of investments.

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

Yes.

Bunty Chawla - Axis Security

Okay. Can you throw some light on the cost to income as it has suddenly increased to 59%? What is the outlook for the Q4 as well or by the year end what will be the target to reach over there?

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

Cost to income is 59.26% for the nine-month period ending. I think this can be brought down to around 50% by year end.

Bunty Chawla - Axis Security

59% to 50%, very much possible.

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

Yes.

Bunty Chawla - Axis Security

Thank you very much. I can come back for further questions in the queue.

Nidhi - Moderator

Thank you Sir. The next question comes from Mr. Viklanth Kasyup from Kedia Securities Private Limited.

Viklanth Kasyup - Kedia Securities Private Limited

Good evening Sir. Thank you for having this call Sir. I have a question and a small suggestion. Is there any initiative for rebranding the bank to make it more relevant for next generation customers? For example, just changing your name from Karnataka Bank to KTK Bank or something similar. As the current name reflects as a public sector bank. The recent volatility in performance also reflects the same and not only performance but the perception of public is similar. We have received a lot of feedback on social media. Being a shareholder, it is my humble request to you, kindly try to change the perception in mind of customers and shareholders. Thank you very much Sir.

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

Thank you. Mr. Kasyup, regarding the name, yes, many times at different levels we had discussed this issue, but as of now I could say that we do not have that proposal. But, anyhow depending on your suggestions, we will definitely reexamine it. But the most important thing for us is to gain an All India Reputation. That is why we are now preferring more on spreading our business throughout India. You may be aware that as of now we have about 740 branches and operating in about 21 states, and the majority of our customers also come from other states like northern states, Delhi, West Bengal,

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Rajasthan, Madhya Pradesh. This is our traditional South Indian status. As far as technology-related things are concerned, you may be aware of the fact that among all the nationalized banks and the private sector banks also, we were the first to embrace upon this core banking solution way back in 1999-2000. That means even though we are the first generation private sector bank, as far as technology is concerned we are not lagging behind. Not only that, while introducing good number of products, the most important thing for Karnataka Bank has been that we have been customer centric and many of the user-friendly products have been introduced by us. You may be aware of the fact that Karnataka Bank is in existence since past 92 years, we also have some legacies to it, and in the sense all age group customers are dealing with Karnataka Bank. For the new generation private sector banks, they have a clean slate and definitely they can start from day #1 on the digital banking 100%. But in our case we cannot exclude traditional customers, the senior citizens and other customers. As I have already explained, the digital banking is picking up in a very rapid pace. Couple of years back, it was just 30% of our total transactions and now that has gone up to 50%. Again, thanks to demonetization, now this has again picked up its pace and definitely whatever the 60% target that we have had, we will definitely be more than that. A lot of new initiatives that is introduction of the app-based mobile solutions and we are also seriously now exploring the possibility of being present in social media. I think it is a reality very soon. Thanks for your kind suggestion; we will definitely look into it.

Viklanth Kasyup - Kedia Securities Private Limited

We are best wishers for the bank, so these were given to us. Another thing, we have seen Q2 being the very best performance for the bank and asset quality also improved, but we see it may be due to demonetization there was some impact on asset quality, do we expect going forward from Q4 or Q1 FY18 our asset quality improve and we can continue on this performance?

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

Yes. As you said, our Q2 was very good in the sense we could reduce the NPA and we could increase the net profit. I think the same aggression we can have in Q4 and Q1 of the next year definitely.

Viklanth Kasyup - Kedia Securities Private Limited

Thank you very much Sir. It was quite helpful.

Nidhi - Moderator

Thank you Sir. The next question comes from Mr. Jaiprakash Mundhra from B&K Securities Limited. You may please ask your question now.

Jaiprakash Mundhra – B&K Securities Limited

Sir, a couple of questions. One is if you can throw some light on our SMA2 book, how is that behaving because in the last two quarters we have seen some slight uptake in the corporate slippages. If you can just share.

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

SMA2 Y-o-Y, if you take December 2015 our SMA2 was ₹2169 Crore. Now it stands at ₹1589 Crore. Percentage wise, we could reduce from 6.58% to 4.44%. We are continuously monitoring that. We have a credit monitoring department introduced last year and that is working well. This SMA2 portfolio we are attacking and then reducing. 4.44% is in our control. Now, we want to reduce it at least to less than 4%.

Jaiprakash Mundhra – B&K Securities Limited

Sure. If I add SMA1 book, so that would roughly give you an idea of delinquent book. How much could that SMA1 book be Sir?

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

I do not have the details now because we were concentrating on SMA2. SMA1 maybe somewhere around ₹2055 Crore, but it is very much under control. Under this economy, we can say that SMA1 will be under control and there will not be any issue on that.

Jaiprakash Mundhra – B&K Securities Limited

Okay. What was the amount which you availed under RBI dispensation? How many of the borrowers came and asked for the deferment of the installment?

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

No. It is not the question of asking. Below ₹1 Crore whatever dispensation we could give, we had given. Amount, as I had already told you, is around ₹70 Crore.

Jaiprakash Mundhra – B&K Securities Limited

Okay. How we are seeing the asset quality in these small-value accounts? When their installment becomes due in January or probably in fourth quarter, do you envisage some sort of risk in these small-value accounts?

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

We are ready to tackle those accounts and definitely will see that these accounts will not enter into NPA. They got the dispensation, but at the end of this 90-days period they have to pay and these are all small accounts which they will definitely pay. They do not allow this account to become NPA.

Jaiprakash Mundhra – B&K Securities Limited

Okay. Lastly, this quarter also our staff cost was slightly on the higher side. Have we taken some provision in terms of yield movement? The staff cost does it include some sort of provision that has been made on yield movement?

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

Exactly. If you take staff expenses Y-o-Y, the increase for the nine-month period is from ₹337 Crore to ₹478 Crore. The increase in HR cost was mainly on account of increase in contribution to pension, gratuity, and leave encashment fund to the extent of around ₹123 Crore.

Jaiprakash Mundhra – B&K Securities Limited

Together it is ₹123 Crore.

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This was also partly responsible for increasing the expenses. Then there would be a normal increase of DA, and salary expenses of additional employees. So it is around ₹15 Crore. Mainly the expense was on account of yield movement and corresponding increase in the contribution to pension, gratuity, and leave encashment.

Jaiprakash Mundhra – B&K Securities Limited

Okay, but not substantial provisions on yield movement and the retirement liability, only the leave and gratuity that we have provided.

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

Yes. What happened is during the second quarter of this year; we have changed the mortality table also, which amounted expense of around ₹49 Crore. This is also part of that.

Jaiprakash Mundhra – B&K Securities Limited

Okay. These ₹123 Crore is for nine months or is it for only third quarter?

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

No. This is on Y-o-Y for one year.

Jaiprakash Mundhra – B&K Securities Limited

Okay. Lastly, if you can provide the third quarter margin. What you have given is I believe nine-month margin, but to take only third quarter margin?

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

Third quarter margin was 2.40 NIM. It was 2.20 last years third quarter. I had told you already the interest spread has moved up from 3.74 to 4.43.

Jaiprakash Mundhra – B&K Securities Limited

What is the number of employees as of now?

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

Around 8000.

Jaiprakash Mundhra – B&K Securities Limited

Okay. I believe there was no SDR and no 5/25 in this quarter?

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

No fresh SDR and no 5/25. One account is in the offing, the exposure is around ₹47 Crore that will be under S4A for which we have already provided for the sustainable portion.

Jaiprakash Mundhra – B&K Securities Limited

Okay, sure. That is all from my side. Thanks.

Nidhi - Moderator

Thank you Sir. The next question comes from Mr. Shreyas Bhukhanwala from Sushil Finance. You may please ask your question now.

Shreyas Bhukhanwala - Sushil Finance

Good evening Sir. Basically on the same line of the previous questions on the employee cost front, what could be the run rate going forward, what we can assume on a quarterly basis?

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

We cannot say the yield movements. If the yield movement is very buoyant then I think there will be some ups and downs. As it is now almost constant at 6.57%. This quarter there may not be much impact on that and only the DA or whatever might be the additional expenses. I do not think there will be much increase in the expenses in this quarter.

Shreyas Bhukhanwala - Sushil Finance

Basically, ₹170 to ₹180 Crore will be a new norm, can we assume that roughly?

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

It will be lesser than that. For the three quarters staff expense was around ₹112 Crore in December 2015. In December 2016 quarter, it is ₹176 Crore. So we can take an average of around ₹140 Crore.

Shreyas Bhukhanwala - Sushil Finance

Okay, so ₹140 to ₹150 Crore roughly. Secondly on the asset quality front, we have seen, apart from last quarter, gradual increase in the gross NPA. Are we seeing maybe this could be the worst what we have in terms of asset quality in this quarter and maybe from next quarter on we would see better or improving asset quality going forward?

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

I already answered this question. We had been planning for asset sales in the third quarter. We could not complete that and it spilled over to the fourth quarter. So, minimum there may be sale of assets to the extent of ₹250 Crore. This will reduce the gross NPA to that extent. Then our efforts in management of these NPAs like recovery, upgradation it will be another about ₹200 Crore. With that I think the gross NPA will be under our control.

Shreyas Bhukhanwala - Sushil Finance

Any major pipeline you are looking at for new accounts getting problematic anywhere?

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

As of now, no. Whatever the SDR we are having will be finalized. Then one account what I told is S4A we are seeing that also will get finalized. There will not be any impact on the gross NPA, but there may be some impact on the provision part by fair value calculation, this may amount to around ₹10 to ₹15 Crore or maximum ₹20 Crore. Even for that new S4A we have already provided in this quarter.

Shreyas Bhukhanwala - Sushil Finance

Okay. How much would be our total SDR 5/25?

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

SDR is around ₹451 Crore.

Shreyas Bhukhanwala - Sushil Finance

And 5/25?

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

As I told no 5/25. S4A is around ₹47 Crore. This will not add to the gross NPA, for which adequate provision has been made.

Shreyas Bhukhanwala - Sushil Finance

Okay. How do you see our restructured book moving? It is around 1600 Crore. Do we expect any major slippages from there?

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

No. If you compare from December 2015, our restructured portfolio was ₹2334 Crore. Now the restructured portfolio comes to ₹1616 Crore. Out of that, the NPA stands at ₹286 Crore. There will not be any major migration to NPA from these ₹1616 Crore; rather there will be more of upgradation. I have been referring in the beginning of question and answer session is one account which was ₹65 Crore relating to one government contractor, which was in our restructured portfolio became NPA in this quarter.

Shreyas Bhukhanwala - Sushil Finance

Okay. So, no major pipeline as well from restructured book you are saying. With demonetization and as well as our industry growth not picking up, what makes you confident about our 14% to 15% credit growth maybe this quarter Sir?

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

Rather than confident we have to do that. We have received much amount under CASA, around ₹4000 Crore. Out of this, even if 50% is drawn by the customers, then another 50% will be left out. So, ₹2000 to ₹2500 Crore surplus will be there. Our CD ratio has also come down to around 63% to 64% average. That being the case, we have to increase the advances and we are pushing the advances at all levels, and mainly on schematic loans or the loans of various schemes. We have introduced some more schemes also. This will result in the increase of the terminal figure. Average may not be to that extent, which will be an ongoing process for the next year's first and second quarters.

Shreyas Bhukhanwala - Sushil Finance

Okay. So, for next year are we maintaining our earlier loan growth target of 17% to 18% plus?

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

Last quarter I had told that we may reach about 70% of CD ratio by the year end. Due to this two-month, what shall I say, holiday on this credit off-take, this could not be materialized, but definitely next year end that is 2017-2018; we have to cross 70%.

Shreyas Bhukhanwala - Sushil Finance

Okay. As of now, any specific segments wherein you are looking at demand coming in for the credit growth?

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

No. We are studying various segments, because we have to see this demonetization impact for all the segments. We have to be careful while entertaining the proposal, may it be on real estate or textile or whatever it may be. We are examining the incoming proposals very thoroughly and handling those proposals. So, as of now, we are very careful, but we are trying to increase the retail portfolio. Our retail-to-corporate mix still stands at 53% to 47%.

Shreyas Bhukhanwala - Sushil Finance

Okay, thanks a lot Sir.

Nidhi - Moderator

Thank you Sir. The next question comes from Mr. Bunty Chawla from Axis Security. You may please ask your question now.

Bunty Chawla - Axis Security

Thank you for taking my question. A few book keeping questions. Can you give me the RIDF figure as of December 2016?

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

RIDF stands at ₹1453 Crore. It was ₹1420 Crore as of September. There were some withdrawals in RIDF in this quarter at a higher rate and there were some payments of RIDF investment at a lower rate, thereby yield has improved.

Bunty Chawla - Axis Security

Any guidance by end of FY17 what would be the figure?

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

It would be at the same level or maybe or ₹50 Crore here and there, otherwise our RIDF yield has improved from 5.23% as against last year 5.05%. It is almost now reaching around 5.5% and it is a good yield.

Bunty Chawla - Axis Security

Okay. Can you give me the book value after the rights issue has been discussed? At the December 2016, what was the book value per share?

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

Book value in March 2016 was ₹195.

Bunty Chawla - Axis Security

No. At the December 2016, after adjusting for the rights issue.

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

You can ask me this question after 10 minutes, I will be ready with the answer or you can mail me.

Bunty Chawla - Axis Security

No problem Sir. One more question, last two years we have observed in March 2015 and March 2016, there was a 50% dividend. Can you give same number for March 2017 and what will be the number?

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

That cannot be told now. We shall hope for the best, because we gave for the rights issue. We are given the shares at ₹70 which itself is partly benefit given to our shareholders. If our profit is good, the best can be accommodated to our shareholders.

Bunty Chawla - Axis Security

Great. You have given the guidance on the NPA front that there will be cash recovery as well as the upgradation. Can you similarly give the guidance for the Q4 slippages, which was around ₹268 Crore you said in Q3, any similar figure for Q4 as such?

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

What I told is we will out beat the recovery over the slippages.

Bunty Chawla - Axis Security

Yes, you said cash recovery of around ₹200 Crore and sale of asset of ₹250 Crore.

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

If you look at the slippages, if you look at last year Q3, the slippages were ₹379 Crore. We reduced it to ₹266 Crore. Now I think this will further reduce and in the third quarter the slippages were ₹233 Crore. I think there may be some slippages, but not to this extent.

Bunty Chawla - Axis Security

Okay, lower than Q3 number. Thank you very much Sir.

Nidhi – Moderator

Thank you Sir. At this moment, there are no further questions from participants. I now hand over the floor back to Mr. P. Jayarama Bhat for the final remarks.

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

Thanks for the questions and suggestions. We are trying our level best to give improved performance for Q4. Definitely, it will be a better performance than Q3. We want to say that we could maintain the nine-month period net profit for this year and definitely going forward we will be giving a rewarding performance in the last quarter of this year. Thanks very much for all your support. Thank you for the support given for our rights issue. It was over-subscribed by 183% and with this our capital adequacy has moved up to 13.19%, that is tier-1 has come to 11.86% and tier-2 has come to 1.33%. So capital adequacy is 13.19%. This is without profit for the nine-month period and I think by the year end it will be somewhere near 14%. Thank you very much for your response. Thank you for your patient hearing. Kindly support us, we will be with you. Thank you.

Nidhi - Moderator

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.