

Conference Call Transcript

Event: Karnataka Bank Limited Fourth Quarter Ended March 31, 2015 Conference Call

Event Date/Time: 22.05.2015 at 4.30 pm

**CORPORATE PARTICIPANTS**

**P. Jayarama Bhat**

Managing Director and Chief Executive Officer - Karnataka Bank Limited

**CONFERENCE CALL PARTICIPANTS**

**Ganesh Shetty**

Mumbai

**Nishid Shah**

Ambika Fincap Consultants Private Limited - Mumbai

---

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

**Prakash**  
Edelweiss - Mumbai

**Jay Mundra**  
B&K Securities – Mumbai

**Rishindra**  
Locus - Delhi

**Sathish Bhat**  
Anvil Shares & Stock broking Private Limited – Mumbai

---

## PRESENTATION

### Harshitha – Moderator

Good evening, ladies and gentlemen, I am Harshitha, the moderator for this conference call. Welcome to Q4 Earnings Conference Call of Karnataka Bank Limited. Mr. P. Jayaram Bhat, Managing Director & CEO will be your call leader today. For the duration of this presentation 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 call to Mr. P. Jayaram Bhat. Thank you and over to you Mr. Bhat!

---

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

Thank you very much for joining the conference call for the results of the Karnataka Bank for the year ending March 2015 as well as the quarter ending March 2015. We have published our results in the website and the analysis just half an hour back. I will give you the salient features of the performance and the numbers.

Year-on-year net profit has increased from Rs.311.03 crores to Rs.451.45 crores with an increase of 45.16% and operating profit has increased from Rs.687.05 crores to Rs.773.38 crores with a growth rate of 12.57%. NII has grown by 10.70%. NIM has slightly come down from 2.40% to 2.36%. Total income has grown by 12.15% and expenditure has also increased by 10.58%.

NPA provisions has also increased from Rs.278.45 crores to Rs.315.34 crores that is 13.25% increase. Quarter-to-quarter, quarter last year to this quarter the net profit has increased from Rs.81.21 crores to Rs.134.42 crores, growth rate being 65.52%, operating profit has increased from Rs.89.15 crores to Rs.189.35 crores that is 112.39%. NII has increased by 16.56%. Total income grew by 11.55%. NIM has also improved from 2.17% to 2.28%.

Coming to the NPA numbers, year on year the gross NPA has gone up from Rs.835.93 crores to Rs.944.21 crores and percentage being 2.92% to 2.95% and net NPA has gone up from Rs.538.94 crores to Rs.623.55 crores, percentage from 1.91% to 1.98%. Sequentially from December 2014 to March 2015, the gross NPA has come down from Rs.1054 crores to Rs.944 crores, i.e. from 3.44% to 2.95% and net NPA from Rs.727 crores to Rs.623 crores from 2.41% to 1.98%.

The provision coverage ratio year-on-year has just come down from 53.21% to 50.54%. Capital adequacy ratio stands at 12.41% as against 13.20%, a year back that is tier I being 10.52% and tier II being 1.89%. This is CRAR as per Basel III. CASA stands at 24.94% and the return on

---

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

**Karnataka Bank Limited Fourth Quarter Ended March 31, 2015**

asset year-on-year it has gone up from 0.71% to 0.91% and during the quarter that is at the end of the March 2015 quarter it stands at 1.05% last year it was 0.71%. Return on equity has moved up from 10.63% to 15.91% for the quarter.

Yield on advance has come down from 12.17% to 11.97%. Cost of deposit has come down from 7.90% to 7.87%. Cost to income ratio has come down from 56.07% to 53.84% and as I said year-on-year return on equity has also gone up from 10.53% to 14.02%.

As far as the NPA recoveries and additions are concerned, the NPA additions for the year was Rs.590 crores and NPA recovery was around Rs.263 crores and total year write-off is around Rs.218.86 crores. For the quarter NPA addition was Rs.150.92 crores and reduction that is recovery and write-off put together was Rs.260.87 crores.

These are as far as the numbers are concerned. Other developments in our bank is that we have reduced our base rate from 10.75% to 10.5% to be effective from June 1, as also we have reduced interest rates on deposits for one year from 8.75% to 8.60%. I am ready to take any questions from our investors, analysts.

---

**Harshitha – 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 “\*1” on their touchtone enable 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” now. First question comes from Mr. Ganesh Shetty from Mumbai. Mr. Shetty you may ask your question now.

---

**Ganesh Shetty – Mumbai**

Congratulations Sir. I am very impressed with NPA reduction and that net profit growth also. Sir I just want to ask one question. This previous year ending March 2015, we have increased our physical presence by increasing 75 more branches and now our branch number is 675 and we are continuing with the branch expansion. This I have asked in the previous conference call also, sir will this put an enormous pressure on our operating profits because during the start of the branches we normally see the business growth is very less compared with established branches plus salary growth and all and one more important thing is the digitalization of banking whereas in payment banks and small banks will come into existence in coming future and will this definite threat for our established banking system and how you are going to tackle all these things in the near future to establish ourselves and move ahead with our goal sir?

---

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

You are right. Last year we have opened 75 branches to take the number to 675. So this year our plan is not more than that. We are opening 50 branches this financial year that is reduction by 25. Our aim is to consolidate and also get more business in the branches which have already been opened so we are just containing to 50 and ATMs we have 1000 ATMs, we had opened 300 ATMs last year and this year we will be opening another 275. So with that, we are keeping business outlets at 2000 this year. So taking into account our reduced branch expansion and also we are trying to get maximum business in the branches, which have been opened in very good places, we hope that we will get good business and we will be getting good operating profit out of

that. As far as digital banking is concerned we are concentrating more and our debit card penetration has gone up to around 80% and then our internet banking penetration to the extent of 7% which we want to increase it to around 15% or 20% and then especially mobile banking we want to increase the penetration which has been just started about two years back and we are going to increase substantially and then from digital to manual transaction numbers in our Finacle software now it has gone up to 37% compared to say about 3% about 10 years back. This way digital banking is increased. We will be going more for digital banking and conserve the man hours for business expansion. Have I answered you?

---

**Ganesh Shetty – Mumbai**

Yes sir, definitely sir. Next question is regarding the selling up our NPAs to ARC companies and as per new RBI guidelines have we made any progress in this direction or we are accessing the selling our NPAs during this quarter so that some of NPAs we can better our number from 1.98% to our target figure of 1.50% at least during this year end 2016?

---

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

We had last year sold about Rs.371 crores of the NPA it is both our live NPAs as well as technically written-off NPAs and which had a provision of around Rs.191 crores and we have received an amount of Rs.169.59 crores. So net loss which we incurred was just Rs.10.42 crores which has been absorbed so it has not been amortized for the next year and in this sale we had sold only those accounts where we have made sufficient provision and going forward also we may sell NPAs to the extent of say around Rs.150 to 200 crores. Wherever the recovery prospects are more, definitely we will go for that and will utilize whatever RBI dispensation has been given if required.

---

**Ganesh Shetty – Mumbai**

Sir my last question is regarding the consolidation in the IT industry as RBI is also in the view of in the future lot of banks will be consolidated and big bank will be formed, so is RBI looking for any inorganic growth in that aspect to increase our presence or increase our business this question may be answered sir? Thanks a lot.

---

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

We are not aiming at any inorganic growth. We are for organic growth only and there are no banks for that also to have inorganic growth. We have set a growth rate of around 17% this year with this growth rate we are now targeting a business turnover of Rs.91000 crores by March 2016.

---

**Ganesh Shetty – Mumbai**

Thanks a lot sir. All the best.

---

**Harshitha – Moderator**

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

Thank you. Next question comes from Nishid Shah from Mumbai. Mr. Shah you may ask your question now.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

Mr. Bhat congratulations. How are you doing?

---

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

Thank you. Fine excellent.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

Couple of quick questions. This NIM has come down from 2.42% to 2.36% where do you expect to cross 3%?

---

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

The answer is that we have to have good credit growth. Last year we had a credit growth of around 13% and this year definitely we are targeting a credit growth of minimum 18% and if this happens then our credit deposit ratio will march ahead and it will be crossing 70%. Once the credit growth is there definitely our net interest income will grow. Now that last year throughout we had a surplus funds position, which had affected our NIM, net interest income. With this 4% additional income next year I think in fact last year also I was telling that we may reach NIM of 2.75% but we could not go aggressively as far as credit expansion is concerned and we are now having a ratio of corporate retail at around 49.5% to 50.5% and we wanted to reverse that growth more for retail in such case the growth rate will be less and gradually the growth rate will come once the CD ratio crosses 70% or 71%, our NII will increase, NIM also will increase and also we are introducing more and more digital products to increase our CASA. CASA is still hovering around 25%, last year it was 25.4% it is around 25% now, we want to increase CASA thereby reduction in the cost of deposits and increase the credit. Also we are likely to be inducted in the consortium of food credit in which case our credit will definitely grow. With all these this year the future is good and we will be increasing our NII at expected lines still I hold on to a level of around 2.8% for March 2016.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

On the CASA what would be the target you are putting for 25% to when will you reach 30% plus?

---

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

30% with another two years this year we are aiming at around 27% to 27.5%.

## Karnataka Bank Limited Fourth Quarter Ended March 31, 2015

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

So you are targeting 2% - 2.5% kind of a growth in CASA every year?

---

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

We have to try. Because once we give good products to the customers, I think they will embrace it which results in improving CASA Ratio.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

On the ROA you mentioned that your last quarter ROA was 1.05%, some of the good banks have a very good ROA so what will be the benchmark in terms of ROA as far as our bank is concerned going forward in the March 2016?

---

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

Good banks in the sense the private sector banks they have given the ROA at around say 1.5%. Benchmark for ROA is 1% and we are at 1.05% for the standalone quarter and for full year the ROA at 0.91%. If you compare to some of the results published by public sector banks, we were maintaining an average ROA of 0.7% to 0.8% and this year it has gone up to 0.91% and as we are targeting a higher net profit next year I think ROA for the whole year should be more than 1%.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

But when will you be able to reach 1.25% or 1.3% that should a level you to get two times priced over 2% – 2.5% kind of profit?

---

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

Yes see now the present book value itself is around Rs.170 and the share price should move up and even the adjusted book value is also around 140 and that being the case with this ROA and only we cross the book value and with the ROA at 1% plus we should have a better ratio at least 1.25% times we should reach.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

On ROE what is your target?

---

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

ROE as of now for the quarter it was 15.91% and for the whole year ROE is around 14.02%. Usually the benchmark is around 16% and we are aiming for that.

---

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

If you go to 16% that will be commendable?

---

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

Yes.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

What is the situation of RIDF?

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

RIDF funds have come down now. At the year-end it was around Rs.1900 crores. Now within 1<sup>1/2</sup> months we have further reduction. Now we are at around Rs.1700 crores it is in the descending trend. Gradually it will come down and within another three four years it will come down to less than around Rs.500 crores.

---

**Nishid Shah - Ambika Fincap Consultants Private Limited - Mumbai**

Okay that is all from my side for the time being.

---

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

Thank you Nishid Ji.

---

**Harshitha – Moderator**

The next question comes from Mr. Alok Shah from Mumbai. Mr. Shah you may ask your question now.

---

**Prakash – Edelweiss - Mumbai**

This is Prakash from Edelweiss. I just have a couple of questions, first what are the fresh restructuring additions during the quarter?

---

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

## Karnataka Bank Limited Fourth Quarter Ended March 31, 2015

Fresh restructuring additions during the quarter it is 19 accounts around Rs.107.38 crores and for the whole year it was Rs.177 accounts Rs.454 crores.

---

**Prakash – Edelweiss - Mumbai**

Sir just looking at your profits that you have reported last part of it has been contributed that provisions write-back that we have so we have a write-back of around Rs.4.5 crores so can you have a provision breakup of where it has been going from and what is the provision breakup during this quarter?

---

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

Provision breakup for during this quarter is NPA at Rs.11.20 crores then standard advance Rs.4.45 crores, investment depreciation negative by Rs.18.60 crores, others at Rs.1.54 crores total Rs.-4.49 crores.

---

**Prakash – Edelweiss - Mumbai**

Sir what happened to the staff expenses we have seen a sequential drop of over 50% so it is currently at Rs.82 odd crores vis-à-vis Rs.186 odd crores last quarter so what anything to read into that how is this happening?

---

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

Employee cost you are talking is not it?

---

**Prakash – Edelweiss - Mumbai**

Yes sir.

---

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

Employee cost, if you look at the whole year employee cost was static at Rs.525.40 crores and Rs.524.66 crores. This quarter it was from Rs.187.72 crores to Rs.82.56 crores. We had made provisions for the wage settlement at the rate of 17.50% from the year 2012, base year being 2012 and now as the agreement has been signed at 15% we got a reversal in the wage the amount which has been provisioned this is one aspect which contributed to the reversal then as far as the pension and gratuity liabilities also we had made a slightly above requirement provisioning and we took the basic pay increase at 10% and then during the settlement there was around 2% increase in the basic pay even though there was a 15% increase in the pay slip so this after actuarial valuation calculation we got write back of around Rs.57-60 crores with all these the employee cost we got a benefit.

---

**Prakash – Edelweiss - Mumbai**

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

Karnataka Bank Limited Fourth Quarter Ended March 31, 2015

Just a put things in perspective we had earlier made a provisions at a rate of 17.50% which has now become 15% so what is the quantum of benefit that we had?

---

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

We got the benefit of Rs.14 crores. To be exact Rs.13.97 crores.

---

**Prakash – Edelweiss - Mumbai**

The balance Rs.57 crores is because of pension and gratuity?

---

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

Exactly.

---

**Prakash – Edelweiss - Mumbai**

Sir what is the treasury profit during this quarter?

---

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

Trading profit was Rs.11.32 crores during this quarter compared to last years Q4 was Rs.8.79 crores.

---

**Prakash – Edelweiss - Mumbai**

Sir similar figure for last quarter if was right there is Rs.67 odd crores?

---

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

Yes, there was one time sale of securities which benefitted a trading profit to the extent of Rs.67.11 crores.

---

**Prakash – Edelweiss - Mumbai**

How much ARC sales that we did this quarter? ARC sale is it?

---

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

This is only one account which we did, around Rs.57 crores or so.

---

**Prakash – Edelweiss - Mumbai**

Rs.57 crores of, this was already on NPL that you sold?

---

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

Yes.

---

**Prakash – Edelweiss – Mumbai**

Okay thank you so much sir.

---

**Harshitha – Moderator**

Next question comes from Mr. Jay Mundra from Mumbai. Mr. Jay you may ask your question now.

---

**Jay Mundra – B&K Securities – Mumbai**

Sir just a couple of data questions, one on this ARC sales you mentioned you have sold this ARC sales for Rs.57 crores can you just tell me what was the book value in our account and how much what has been the consideration in terms of SR and cash?

---

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

See the book value was Rs.49.11 crores and we received around Rs.30 crores and we had a provision of Rs.20.57 crores so almost it was equal and we have not lost anything we had not provided.

---

**Jay Mundra – B&K Securities – Mumbai**

Sir this 30 crores is that we have received is 85% SR or it is some other structure?

---

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

Cash component is Rs.4.95 crores and SR is Rs.23.59 crores.

---

**Jay Mundra – B&K Securities – Mumbai**

Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Bharti Airtel Limited.

Karnataka Bank Limited Fourth Quarter Ended March 31, 2015

Sir secondly you mentioned this restructuring for the quarter was it Rs.157 crores for the quarter?

---

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

For the quarter it was Rs.107 crores.

---

**Jay Mundra – B&K Securities – Mumbai**

So just we have a restructuring book of Rs.2000 crores outstanding?

---

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

Rs.2023 crores.

---

**Jay Mundra – B&K Securities – Mumbai**

This is only standard restructured right?

---

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

No this includes standard, and substandard NPA is Rs.224 crores.

---

**Jay Mundra – B&K Securities – Mumbai**

Out of which?

---

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

Rs.2023 crores.

---

**Jay Mundra – B&K Securities – Mumbai**

Rs.223 is NPA.

---

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

No. Rs.2023 crores is the total. In that, NPA is Rs.224 crores.

**Jay Mundra – B&K Securities – Mumbai**

Okay and 2000 is standard only.

---

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

No. Rs.1700 crores and odd is standard. You got the number, Rs.2023 is the total restructured portfolio out of that, Rs.224 crores is NPA.

---

**Jay Mundra – B&K Securities – Mumbai**

Sir what is our net interest margin for this fourth quarter only?

---

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

Fourth quarter only net interest margin was 2.28%. Last quarter it was 2.17%.

---

**Jay Mundra – B&K Securities – Mumbai**

2.28%.

---

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

Yes.

---

**Jay Mundra – B&K Securities – Mumbai**

So it has been actually moved up?

---

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

It has moved up by about 11 basis points.

---

**Jay Mundra – B&K Securities – Mumbai**

Sir if any slippages that we have seen is actually come down from last quarter that we did and this quarter has come down to around Rs.150 crores what is your sense on this slippages going forward as to how are you seeing the our problematic accounts are getting sorted or incrementally we are doing more lending in retail so how do you seen this asset quality should pan out?

---

---

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

Challenges are always there. Going forward also there are some accounts, which is causing concern, but we are managing with that. If you look at the way in which we have handled our NPA portfolio last quarter. If you look at last quarter it has come down from Rs.1054 crores plus to Rs.944 crores likewise definitely we will tackle these accounts and we have some accounts lined up for sale also. With this I think we will be having our gross NPA under control and slippages also we will try to control.

---

**Jay Mundra – B&K Securities – Mumbai**

Sure sir, and is there any accounts which has been already reached that in fourth quarter or it was approved in fourth quarter and we have to come back in first quarter is there any?

---

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

All are over.

---

**Jay Mundra – B&K Securities – Mumbai**

Thank you sir. Those were the questions.

---

**Harshitha - Moderator**

Next question comes from Mr. Rishindra from Delhi. Mr. Rishindra you may ask your question now.

---

**Rishindra – Locus - Delhi**

Mr. Bhat, just a couple of quick questions. What is the balance of security receipt outstanding on your balance sheet now?

---

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

Rs.187 crores.

---

**Rishindra – Locus – Delhi**

That is the total outstanding?

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

Yes.

---

**Rishindra – Locus – Delhi**

Okay and what is the total employee count of your bank now?

---

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

7327.

---

**Rishindra – Locus – Delhi**

Would you have the split of GNPA reduction during the year that Rs.822 crores between recovery and upgrade?

---

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

You wanted recovery?

---

**Rishindra – Locus – Delhi**

Yes recovery, upgrade, write-off the entire breakup?

---

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

See as far as slippages are concerned total slippages for the year if you take balance as of March 31, 2014 it is Rs.590 crores, then recovery in that is Rs.482 crores.

---

**Rishindra – Locus – Delhi**

Any upgrades?

---

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

If we take into account the total addition of NPA is Rs.929.84 crores and the total reduction of NPA is Rs.821.56 crores.

**Rishindra – Locus – Delhi**

Just one question in terms of the restructured is at about Rs.1800 crores is standard restructured accounts right?

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

Yes.

**Rishindra – Locus – Delhi**

Out of that how much would be the balance outstanding to SEB?

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

Rs.900 crores and odd.

**Rishindra – Locus – Delhi**

Now it Rs.900 crores out of that Rs.1800 crores is to SEBs?

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

Yes power sector.

**Rishindra – Locus – Delhi**

Is it SEB or is it all power sectors?

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

Mainly those four SEBs.

**Rishindra – Locus – Delhi**

The last question would be Mr. Bhat what is the opex that you foresee going into next year? The growth in the opex or it is already at a very high level?

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

Operational expenditure is it?

---

**Rishindra – Locus – Delhi**

Yes both on the employee as well as the non-employee practical we just tell go forth what do you foresee for FY 2016?

---

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

It will not be any abnormal figures. These are normal figures and we do not foresee any additional expenditure as well as the establishment and everything is concerned because we have set all these parameters as far as pension is concerned even the pension liability may come down because of the new pension scheme where new employees will be under new pension schemes so the pension liability will definitely come down. We do not have that one-off expenditure of five years back that second option for pension and all that every year we have to amortize around Rs.31 crores which is not there now and everything is now amortized. So all these will be additions to us otherwise there will not be any one-off expenditure as far as the employee cost is concerned.

---

**Rishindra – Locus – Delhi**

The Rs.57 crores write-back that you mentioned taken on for pension provision which was taken in Q4 right?

---

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

Yes Q4.

---

**Rishindra – Locus – Delhi**

What would have been the normalized employee cost level in Q4 if we look at the ongoing whatever the run rate would be on the employee cost front now?

---

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

It is around 15% growth in employee cost expenditure.

---

**Rishindra – Locus – Delhi**

Right, but what is the base on which you are assuming 15% growth?

---

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

Rs.525 crores.

---

**Rishindra – Locus – Delhi**

Thank you that is all.

---

**Harshitha – Moderator**

Next question comes from Mr. Chinmay Desai from Mumbai. Mr. Desai you may ask your question now.

---

**Sathish Bhat - Anvil Shares & Stock Broking Private Limited – Mumbai**

This is Sathish Bhat from Anvil. How are you?

---

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

Yes I am fine.

---

**Sathish Bhat - Anvil Shares & Stock Broking Private Limited – Mumbai**

Sir I just wanted your management's view regarding the restructured assets which we have standard around Rs.1700 crores how do you see visibility in terms of upgrading of that assets and what is the management's near-term focus in terms of NPA management if you can throw some light on that?

---

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

Under this restructured assets of Rs.2023 crores, there are no major accounts which will slip to NPAs in future almost all accounts repayments are coming except say about hardly about Rs.100 to 150 crores which are causing concern. Once the payments start coming as per the schedule, it will be upgraded for normal provision and as I already answered, about Rs.900 crores are in power sector, that state electricity board and rest out of that around Rs.300 crores are for agriculture sector and these are restructured on account of natural calamities and rest are good accounts which I think within another one or two years this will be performing no problem.

---

**Sathish Bhat - Anvil Shares & Stock Broking Private Limited – Mumbai**

Sir your target for NPA in FY 2016, NPA reduction target volume is how you are seeing your year end NPAs?

---

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

Yes. Projections for net NPA will be to 1.3% or less.

---

**Sathish Bhat - Anvil Shares & Stock Broking Private Limited – Mumbai**

Okay that would be quite fine. Thank you sir.

---

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

Thank you.

---

**Harshitha – Moderator**

Participants who wish to ask question may please press “\*1” now. Next question comes from Mr. Jay from Mumbai. Mr. Jay you may ask your question now.

---

**Jay Mundra – B&K Securities – Mumbai**

Hi sir. This is Jay Mundra from B&K Securities. Just wanted your thoughts on net interest margin progression. As we are seeing that you have already cut your base rate I think and you have also lowered your cost of deposit but going forward in a falling rate interest environment how do you see your net interest margin should move?

---

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

I have answered this question. With this cut in base rate by 25-basis points which we have done after almost two years, during those two years we had already reduced our interest on deposits almost from 9.25% to 8.6%. I think once major deposits are at one year duration deposits so when it comes for renewal definitely it will be at a rate of 8.60% so I think the impact will be almost marginal and we should get almost whatever offset by way of reduction of interest on base rate will match the impact on interest on deposits, added to that, we are expecting a better credit growth this year at around 18% plus which makes our net interest income increase and definitely we can slightly move up as far as the NIM is concerned. On a query from one of the participants, I have told 2.8% is our target and we have to reach it and also we are trying to increase CASA and with all these I think NIM should improve and also in the case of recovery of NPAs we may get the reversal of unrealized interest in those accounts which also will increase the NII.

---

**Jay Mundra – B&K Securities – Mumbai**

I think in third quarter we were hoping off some interest reversal recovery from some large accounts?

---

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

Yes, it did happen in fact we had additional provision in the fourth quarter to the extent in the fourth quarter it was around Rs.11.20 crores and there was a reversal of unrealized interest to the extent of around Rs.40 crores so this also added to the reason why the NIM has come down on the whole for the whole year but in the fourth quarter there was a increase of NIM in fact NIM has increased from 2.17% to 2.28%.

---

**Jay Mundra – B&K Securities – Mumbai**

So what is this 40 crores in this fourth quarter?

---

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

Unrealized interest on fresh slippages, there is interest in fresh slippages.

---

**Jay Mundra – B&K Securities – Mumbai**

Interest reversal for this quarter is it?

---

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

Whole year.

---

**Jay Mundra – B&K Securities – Mumbai**

So whole year 40 crores was interest reversal which in the next year going forward should be actually less right?

---

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

Yes.

---

**Jay Mundra – B&K Securities – Mumbai**

Sure sir. Thank you sir.

---

**Harshitha – Moderator**

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

---

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

Thank you. Thanks for your active participation. We hope we have answered all your queries. We are also holding one analyst meet at Mumbai at Taj President on 25<sup>th</sup> of this month at 4:30 PM. So those of you wish to be a participant in the said analyst meet are most welcome. Thank you very much.

---

**Harshitha – Moderator**

Thank you very much sir. 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.