



# “Karnataka Bank Limited Q3 FY19 Earnings Conference Call”

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**MODERATOR:** **MR. ALOK SHAH – RESEARCH ANALYST, CENTRUM BROKING**

**Moderator:** Good day, ladies and gentlemen, and a very warm welcome to the Karnataka Bank Limited Q3 FY19 Earnings Conference Call, hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Alok Shah from Centrum Broking. Thank you and over to you, sir.

**Alok Shah:** Thanks, Ali. Good evening, all. On behalf of Centrum Broking, we welcome you for Karnataka Bank’s Q3 FY19 results con-call. From the management’s end we have Mr. M.S. Mahabaleshwara – MD & CEO, Mr. Raghavendra Bhat – COO and Mr. Y. V. Balachandra – CFO on the call. Without taking much of your time, I request Mahabaleshwara sir to put across his thoughts, post which we could open up for a Q&A session. Thank you, over to you sir.

**M.S. Mahabaleshwara:** Good afternoon to all of you. Thanks to each one of you for showing keen interest on this concall of Q3 earnings of Karnataka Bank. First of all, let me wish you all a very Happy New Year 2019. And our Q3 result analysis is already uploaded on our website.

Few words on the macroeconomic conditions. The GDP growth estimates at 7.30% by the World Bank and banking sector credit growth at a rate of 15% plus, as well as a turnaround of PCA banks which has just started, these are all the positives for the banking sector. And of course, personally we predict that the slow growth of NBFCs may continue and in an indirect way it may be a favorable factor for the banking industry as well. However, stress in agricultural advances for the entire banking industry, it is also likely to continue. Nevertheless, the MSME sector is likely to be the growth engine for the advances. This is what we have analyzed and understood internally.

As far as the Q3 results of Karnataka Bank is concerned, you all might have already noted that the net profit has increased to Rs. 140.41 crores with a growth rate of 60.69%. So, I should share with you that this is the hat-trick century by KBL during the current financial year. Q1, we had declared Rs. 163 crores as net profit, Q2 we had declared Rs. 111 crores as net profit, and Q3 we had declared Rs. 141 crores. Having said that, I seek your best wishes for KBL’s maiden double century in the ensuing quarters.

Now, as far as the earnings are concerned, the net profit has gone up by 60.69%, mainly because of the improvement in the operating profit, which has shown a growth of 24.38%. And there also interest income is up by 13.67%. And NII, you might have noticed that it reached around 8.08% growth, but we have not recognized about Rs. 30 crores of interest, which is mainly in the area of IL&FS for the exposure of Rs. 155 crores. During the current quarter we have treated that entire Rs. 155 crores credit exposure as NPA. And we have also reversed unrealized interest of around Rs. 6 crores and we have also started making provisions. So, during this quarter we have provided about 15%, which is somewhere around Rs. 23 crores and Rs. 6 crores interest is already reversed. And in this reversal, MSME dispensation accounts to around 10.70, that means we have not recognized that interest and there is MSME FITL accounts also another Rs. 3 crores. And as you all know, the stress in the agricultural portfolio for the entire banking industry is continuing, mainly because of this loan waiver scheme which is yet to be implemented in many of the states. So, we have also not recognized about Rs. 10 crores of interest income.

All put together, around Rs. 30 crores of interest income is not recognized. Had we been able to recognize that interest income, our NII would have been somewhere around 14.75%. So, these are all the future reserves I should say which is going to come to our rescue.

And other income, the trading profit, there is a jump of Rs. 106.87 crores, but for the full nine months last year it was at Rs. 185 crores, this year it is about Rs. 120 crores. Of this Rs. 120 crores of trading profit, about 50% has come from our trading book, of course, specially our Universal Sampo holding which was under the AFS category, and we thought that it is the right time to book the profit. So, that amount is already realized, as a result there is a jump in the trading profit during the current quarter. But if you look at the nine months, it is still less, Rs. 185 crores versus Rs. 120 crores.

Fee based income also has gone up by 14.12% and total income by 18.92%. Expenses, everything is by and large under control, under superannuation benefit last September there was about Rs. 29 crores write back whereas this quarter, we had provided for about Rs 29 crores. Apart from that, we have also provided for the wage revision, at present level we have fully provided. And as far as the

asset quality is concerned, including ILFS credit exposure of Rs. 155 crores, our gross NPA now stands at Rs. 2,346 crores. It was at Rs. 2,372 crores as of September 2018. So, gross NPA percent it was at 4.66%, now it has come down to 4.45%. However, net NPA percentage remains at 3%. And NPA addition during this quarter, including ILFS of Rs. 155 crores, it is Rs. 407 crores. Excluding ILFS it is Rs. 252 crores. And the slippage ratio including ILFS is 0.86, excluding ILFS it is 0.53. Provision coverage ratio is at 57.20%, and it was at 57.49% as of September 2018.

Then SMA2, there is a positive traction. SMA2 which was at Rs. 346.74 crores, now it is at Rs. 333.57 crores. And in MSME dispensation list, which was at Rs. 210 crores, now it is at Rs. 225 crores. And that is about earnings and asset quality. As far as business growth is concerned, our overall business growth is at 14.67%. With advances growth of 17.15% and deposit growth of 12.76%.

As far as employee productivity is concerned, our operating profit per employee which was at Rs.12.21 lakh about a year back has now improved to Rs.13.58 lakhs. And our operating profit per branch, which was at Rs.127.76 lakhs about a year back now improved to Rs.135.78 lakhs. Business per employee has also gone up from Rs. 12.51 crores to Rs. 14.13 crores. And most significantly, the business per branch which was at Rs. 130.76 crores has gone up to Rs.141.26 crores. So, these are all the employee profitability related aspects.

As far as our transformation journey is concerned, you all know that we are on transformation exercise in association with BCG, called KBL Vikaas. We have totally redesigned the structure and process of housing and MSME loan delivery system. As a result, the housing loans sanctioned on year-on-year basis has gone up by 50% and the MSME fresh loan sanctions is up by 21%. As far as book growth is concerned, housing loans has shown a traction of 21.23% growth whereas MSME has registered 12.16%, this is in terms of terminal numbers. Of course, we have also introduced so many additional lead sourcing channels i.e., DSAs, BSAs, Fintech, Analytics etc., and we are getting very good quality leads and sourcing good business. In the earlier model, only the branch used to source the business, now apart from the branch we have other sources, including the online applications and the things are just picking up. We have also further strengthened feet-on-street resource, mainly as sales associates to further strengthen our sales force.

The collection mechanism, i.e. to recover the dues on or before the due date, is further streamlined and strengthened with IT tools as well. We have already opened the first Digi-branch in Bangalore on 13th of November, 2018. During this month, i.e. 16th January we will be opening our Digital Center of Excellence, this will provide all IT solutions and digital solution for our business requirements. We will be having a full-fledged call-center, which is totally outsourced, and very shortly we will also have our wholly owned subsidiary. So, the transformation journey is progressing as per our expectation.

We have also further created a separate credit sales vertical. About four years back we had only one credit department which was taking care of credit monitoring, credit sanctions and credit sales. Now, we have three departments- one entirely takes care of only credit sales, another credit sanctions and the third credit monitoring. So, this is how we have been able to streamline the entire credit delivery channel.

You all know that we are under Finacle 7 version of Infosys for our CBS (core banking solution). Most probably during this month we will be migrating to a new version i.e., the Fin10 version. About five banks in the banking industry in India have already migrated and Karnataka Bank will be one of the early banks to migrate to Fin10 during the current quarter itself.

This is all from my side to begin with. We will be happy to address and answer your queries, if any.

**Moderator:** Thank you very much, sir, for the insightful presentation. Ladies & gentlemen we will now begin the question-and-answer session. We have the first question from the line of Jai Mundra from B&K Securities. Please go ahead.

**Jai Mundra:** Sir, first question is on Universal Sampo, so how much have we sold? And do we retain any of that exposure now, or how is it?

**M.S. Mahabaleshwara:** We had about 14.90% shareholding in Universal Sampo, an unlisted company. We have now reduced our exposure to around 8.7%. We still continue to hold around 8% plus in that company.

- Jai Mundra:** And then again is it in AFS book or do you want to exit from this business at some point of time? What is the thought process here?
- M.S. Mahabaleshwara:** We are already into the Bancassurance business i.e., life insurance and general insurance. We are in life insurance business since last 15 years and in general insurance since last 10 years. In general insurance, as of now we have two partners viz., Universal Sampo and Bajaj Allianz and these two general insurance partners will continue. In life insurance too we have two partners as of now, i.e., MetLife and Life Insurance Corporation of India. As of now, we will continue to have business with all the four companies, because this is one of the very much required business portfolios from the point of view of the customers also.
- Jai Mundra:** Sir, actually I was asking, would you remain invested in this company? I mean, for sure you will keep on distribution these products but I am saying this 8.7%, do you still believe that at some point of time you will fully exit this business while keep on doing the distribution?
- M.S. Mahabaleshwara:** As of now we are not thinking of total exit. As of now we are continuing. We thought that this is the right time to book the profit, because the entire thing was held under AFS category right from the beginning. Earlier also, whenever there was depreciation we have been providing, now we thought that it is right time to book the profit and we took a call.
- Jai Mundra:** And so this means effectively you sold some 6.2%, right?
- M.S. Mahabaleshwara:** Yes, around that percent.
- Jai Mundra:** And if you can quantify what is the money you have got by selling this stake?
- M.S. Mahabaleshwara:** It is part of the treasury operations, I do not have that entire amount here. But if you look for first nine months of the last year, we had a trading profit of around Rs.185 crores and this year till date it is about Rs.120 crores from trading. And part of it is from Sampo.
- Jai Mundra:** And second question is on yield, so if I see our BSE exchange disclosure it says that and the Rs. 46 crores of AFS depreciation that was there we have provided Rs. 13 crores in this quarter and Rs. 13 crores again has been deferred. But during the quarter there was sharp decline in the yields. So, did we not get any benefit of this yield decline? Because that AFS depreciation looks like it is the same.
- Y. V. Balachandra:** A total depreciation requirement for nine months period was Rs. 143.6 crores and we have existing provision of Rs.110.66 crores. And that is one leg of transaction. Second leg of the transaction is that depreciation as of June, which is to be apportioned over four quarters at Rs.13.41 crores each has been taken in this quarter also. That means out of that opening stock of Rs.54 crores, we have already absorbed Rs.40.23 crore and the remaining Rs. 13.41 crores will be absorbed in the coming quarter.
- Jai Mundra:** And last question is on asset quality, you highlighted this MSME dispensation portfolio of Rs. 225 crores, what is your view going ahead on this portfolio as how much of this could slip? And are we through RBI divergence exercise for FY18? Thank you.
- M.S. Mahabaleshwara:** MSME portfolio going by the past trend about 55% to 60% is likely to be upgraded and the slippage could be in the range of 40% to 45%. That also is over a period and it may not happen immediately. Nevertheless, this is a very small portfolio. The MSME dispensation portfolio itself is Rs. 225 crores, even if 50% slips it will not be more than Rs.110 crores.
- Jai Mundra:** And are we through RBI divergence exercise, sir?
- M.S. Mahabaleshwara:** Yes, there also almost this entire portfolio is eligible for restructuring. So, we will also take a view on restructuring this portfolio. But again, in the MSME dispensation additional 5% provision is required. And if the same loan is further restructured under the new MSME restructuring scheme, another 5% additional provision is required.
- Jai Mundra:** Sir, if you can answer, are we through for RBI divergence exercise for this year, FY18?
- M.S. Mahabaleshwara:** I am waiting for reply from Reserve Bank of India, we have not yet received our inspection as well as the divergence report. We may get it within a couple of months.

- Moderator:** Thank you. Our next question is from the line of Prakhar Agarwal from Edelweiss. Please go ahead.
- Prakhar Agarwal:** Sir, a couple of questions. First on ILFS exposure, we have treated that entire exposure of Rs. 155 crores as NPA while only Rs. 30 crores was in form of holding company, what was the rationale of treating entire exposure as NPA?
- M.S. Mahabaleshwara:** Basically the business prudence, and if you strictly apply the IRAC norms it has to be treated. So, we took a call that let us treat it as NPA and start providing for that, because, in future as and when the resolution happens, definitely we will be benefitted. And second one is, you might have already noted that we have given three treatments to the ILFS credit exposure of Rs. 155 crores, one is of course we have treated it as NPA, second one is that we have reversed the unrealized interest, it was around Rs. 6 crores plus, and thirdly, we have also started providing as per the IRAC norms, to begin with at 15%, that means around Rs. 23 crores we have already provided.
- Prakhar Agarwal:** Sir, on outstanding basis we have provided around 15% on this Rs. 155 crores?
- M.S. Mahabaleshwara:** Yes, you are right.
- Prakhar Agarwal:** And sir can I have entity wise breakup of this ILFS of Rs. 155 crores, which all entities that you have?
- M.S. Mahabaleshwara:** Three entities we have, all put together Rs. 155 crores. Infrastructure Leasing and Finance about Rs.75 crores, ILFS Energy is Rs. 50 crores and ILFS Transportation network is Rs. 30 crores.
- Prakhar Agarwal:** So, while we have been highlighting in terms of our effort that we are taking on liability side, but still when you look at your CASA momentum that is not having any substantial improvement. Any thoughts on this?
- M.S. Mahabaleshwara:** Yes, we have already flagged off this issue, CASA which was the highest during the demonetization period at around 29%, now is at 26.65%. CASA campaign, i.e., on-boarding of new customer, is at full swing. And CASA augmentation is also one of the initiatives that we have taken up under our transformation journey. Going forward we should be able to further improve it and we have been aiming to improve it to a level of around 29% to 30% in a couple of years. This quarter it has slowed down, but all efforts are on to further improve it.
- Prakhar Agarwal:** And sir on the margins, what is the total interest income reversal during the quarter that you said?
- M.S. Mahabaleshwara:** Interest reversal in ILFS alone is Rs.6 crores, in MSME dispensation accounts around Rs. 10.70 crores and MSME FITL accounts interest reversal is around Rs.2.79 crores. The agricultural accounts which have been treated as NPA, there is unrealized interest of around Rs. 10 crores. Thus, about Rs. 30 crores interest reversals made during the current quarter. That means it is just not recognized.
- Prakhar Agarwal:** Out outlook on margins at this point in time?
- M.S. Mahabaleshwara:** That will be definitely above 3%, now it is 2.95%, I am confident that by year end it should be around 3%.
- Moderator:** Thank you. Our next question is from the line of Sagar Shah from KSA Securities. Please go ahead.
- Sagar Shah:** My first question is regarding our employee cost actually, as you had said that we have provided for wage revision actually in this quarter, so that's why we saw almost Rs. 60 crores jump on our employee cost. So, my question was, is this cost going to sustain in the next few quarters also or is it going to reduce?
- M.S. Mahabaleshwara:** I got your point. In the employee cost as far as salary is concerned, the jump is around 12% and that too, after providing for the wage revision. Wage revision negotiation is going on, as per the negotiation improvement offer whatever is being offered by IBA, we are providing at that rate. So, as of now for the full wage revision whatever is already offered, to that extent we have provided. So, this increase is mainly on account of that provision. And during this quarter itself we have provided around Rs. 22 crores. And another jump is in the superannuation benefit. During September 2018 there was a write-back from this portfolio to an extent of Rs. 29 crores, whereas

during this quarter we have provided additionally around Rs.29 crores. So, that is the major thing under the establishment expenses. Otherwise there is no change, it is very much under control.

- Sagar Shah:** But is this superannuation benefit going to sustain over the next few quarters?
- M.S. Mahabaleshwara:** This is entirely depending on the yield movement. Now it has slightly improved and if I had provided today it would have definitely come down. However, as this area is fluctuating one and not under our control. Based on the actuarial valuations this benefit is being provided.
- Sagar Shah:** So, it is uncertain basically?
- M.S. Mahabaleshwara:** Yes. Salary is of course as per the wage negotiation with IBA, and we have started providing for the wage revision. For the entire year the staff strength also has not increased much. Even though business has shown very good traction, the total employee strength has gone up by just 118 in number, that's all. So, that is why the overall salary expense is very much under control.
- Sagar Shah:** Sir my second question was regarding our CASA ratio actually, over the last few quarters it has been noted that your CASA ratio as percentage to total deposits has come down.
- M.S. Mahabaleshwara:** We have already flagged off this issue as CASA is at around 26.65%.
- Sagar Shah:** Irrespective of you opening new branches every quarter, that is why.
- M.S. Mahabaleshwara:** During the current year, we plan to open just 35 branches across India. Now whenever a new branch is opened, either in a small rural area or a big metro area, we keep the stock exchange informed as a prudent business practice. And last year we had opened 50 branches, this year we have brought it down to 35. Our main focus is to improve the business per branch, which you might have already taken note of. The business per branch which was at Rs.130.83 crore about a year back has now gone up to Rs.141.26 crore. This is in spite of opening these 35 new branches, that is also accounted here. And the business per employee also gone up from Rs.12.51 crore to Rs.14.13 crore. The employee productivity is on the increase, but of course further positive traction has to happen.
- Sagar Shah:** Sir, my third question was regarding our rating portfolio actually. Something like in this one if you can see, in our external rating wise credit portfolio in the D rating we still have Rs. 873 crores balance outstanding actually, so my question was, have we provided regarding the same till date, have we provided for that Rs. 873 crores?
- M.S. Mahabaleshwara:** No, even if it is D rated these are all performing advances. So, in that D rating the total exposure is Rs. 873 crores, of that Rs. 155 crores you know, that is already provided. Rest of the things, entire portfolio of rating advances which is now at 36.27% of our total advances this is performing only. This was at 32% about a year back, the external rated portfolio, now it has improved to 36%.
- Sagar Shah:** So, still they are performing and you are expecting them to be upgraded?
- M.S. Mahabaleshwara:** Rating wise upgradation is not in our hand, if their balance sheet strength and other things improve, then definitely they get eligible for external rating upgradation. From our point of view even BBB, BB or B rated borrowers, they are all high yielding and performing advances. Only thing is if it is high rated it helps in my risk weightage as well as our capital adequacy.
- Sagar Shah:** Sir, my last question is regarding our slippage ratio actually. As you can see our slippage ratio as compared to the last year it was 0.53%, it has almost jumped to double actually, 0.86%, from Rs. 211 crores to Rs. 407 crores. So, how much that is from retail and how much that is from corporate, Rs. 407 crores for this quarter?
- M.S. Mahabaleshwara:** See, to put it in right perspective, my slippage ratio for the previous quarter, i.e. September 2018 was 0.81%. So, now it is 0.86% because of the ILFS impact. If you take out that ILFS then it is 0.53%. Now your second question is the corporate, how much slippage and other things. In the corporate sector the only slippage is ILFS, all others are the mid corporates and the retail.
- Sagar Shah:** So, all others are mid-corporates.

- M.S. Mahabaleshwara:** But for that no other corporate account has slipped, it is only the three groups of that category, all others are in the category of mid-corporate and retail advances only. Mainly from one account from automobile sector, two accounts from energy sector, like that.
- Sagar Shah:** So, do we expect our slippage ratio to at least reduce, or our slippages in absolute terms to reduce in further quarters? Because it is a little high as compared to other banks.
- M.S. Mahabaleshwara:** We are optimistic and we are taking very concrete steps to further improve this ratio.
- Moderator:** Thank you. Our next question is from the line of Pranav Gupta from Birla Sun Life Insurance. Please go ahead.
- Pranav Gupta:** Sorry, if I am repeating this question, I joined late. As I see the breakup of your advances, the growth in your large industries or large corporate is quite strong. So, could you give us a color of what sectors are driving this growth? What kind of accounts you are gaining in this sector? Some color on that sense.
- M.S. Mahabaleshwara:** As far as the growth areas are concerned, MSME we have grown at a rate of 12.16% YoY. Housing sector we have grown at a rate of 22.10%. Commercial real-estate and related mortgage loans, we have grown at a rate of 13.76%. And in the car loans we have grown at a rate of 14.23%. And of course, we are reducing our exposure to the consortium advances which was at 3.81% of my total advances portfolio about a year back, now it is at 3.18%. So, consortium advances we are reducing our exposure and individual, and of course in the multiple banking advances also we are showing positive tractions.
- Pranav Gupta:** No, my question was largely around your large industries exposures, as you have said in your presentation, which has grown from 12.5% odd in last quarter to 14.4%. That is on slide #17 of your current presentation.
- M.S. Mahabaleshwara:** No, that is large corporates, mid-corporates and retail.
- Pranav Gupta:** So, even if you look at the share of large corporates, it has grown from 45.5 to 47.7.
- M.S. Mahabaleshwara:** Mainly from the point of view of our exposure wise, exposure up to Rs. 5 crores, irrespective of the constitution it is treated as retail. Rs. 5 crores to Rs. 15 crores is treated as mid-corporates. And above Rs.15 crores is treated as large corporates. So, that is in accordance with that definition. However, if you look into our real corporate exposure, that is the public and private limited companies, it was at 41.97% as of December 2017. Now the corporate exposure is at 43.73%. So, there is no significant jump in the real corporate i.e., public and private limited companies.
- Pranav Gupta:** The number you gave is YoY, right?
- M.S. Mahabaleshwara:** Yes. December 2017 it was 41.97%, now 43.73%.
- Moderator:** Thank you. Our next question is from the line of Rohit Balakrishnan from VRDDHI Capital Investment Advisors. Please go ahead.
- Rohit Balakrishnan:** Sir, first question was around your capital adequacy. So, the last few quarters we have seen it sort of deteriorating, so any thoughts around capital raising or how do you shore off that, if you have any comments on that?
- M.S. Mahabaleshwara:** Yes, we have already raised about Rs.400 crores under Tier II during Q3. And because of this, there is an improvement in CAR from 11.30% as of September 2018 to 11.98% as of now. And we have not accounted here the current year's profit of Rs. 415 crore. If you account that also, then CAR would improve to 12.80%. However, only after completion of current financial year we will take that into account. So, most probably we will definitely have a CAR of around 12.5% comfortably by March 2019, as against 12.04% as of last year, March 2018. And the capital augmentation, as I said, it is a continuous process, so as and when we want that, most probably current financial year we may not approach the market, so depending on our assessment we may hit the market with the capital augmentation plan in the ensuing year.
- Rohit Balakrishnan:** And sir second question was in relation to previous participant's question on your rating portfolio, so there is a significant part which is D but you said that it is still around Rs. 870 crores which is

rated B, but it is still performing. So, can you help me understand, I mean if it is D and this has been rated as D then how is it performing in the sense?

**M.S. Mahabaleshwara:** I got your point, you are looking at it most probably from the market instrument perspective but this is the credit exposure that we are having in some of the individuals who are not in a position to get good rating, therefore they get either B, C or D. So, account is very much performing and it is also one of the high yielding advances. So, this 'D' in fact does not relate to the quality of the advances, rather than of course the risk weight related issue from the bank's point of view. And from the customer's point of view, definitely because of their different constitution, they will not be able to get good rating.

**Rohit Balakrishnan:** So, if I understand you correctly, you are saying that rating is more from a group perspective and what you have lent out to a specific company or a subsidiary, that has nothing to do with the group's rating?

**M.S. Mahabaleshwara:** Yes, not even subsidiary. See, these are all some of the accounts either partnership or individuals who are having about Rs. 40 crores, Rs. 50 crores or Rs. 100 crores exposure. They are all continuously with us for quite a long period. From internal rating point of view they may be having KB3 or KB4 rating, but they have gone for external rating out of compulsion. Otherwise there is no worry as far as this portfolio is concerned.

**Rohit Balakrishnan:** And sir lastly in terms of FY19 is almost through, so for the next financial year any thoughts in terms of your aspiration for growth and also in terms of your NPA has been improving, but any overall guidance that you see sort of this NPA accretion to sort of stabilize at?

**M.S. Mahabaleshwara:** Growth aspirations we should be able to sustain the present growth, both in terms of asset as well as the liability. And definitely last quarter there will be always extra effort and it may show further improvement. As far as the asset quality is concerned, I think worst is already behind us, because the reduction has already overtaken the addition. And the addition also, if you add ILFS, then only the slippage ratio is at 0.86 otherwise it is at around 0.53. Of course, I personally feel that we should be able to contain it to below 0.5% going forward. That is why I have given an estimation or the outlook for our gross NPA at around 4%, plus or minus 20 basis point for the ensuing quarter. We are very much at it, so major pain in the asset portfolio I think we have already absorbed. And the stress in the pipeline also, that is why I have given you the numbers under the SMA II as well as MSME dispensation restructuring, all such things. Because these are the areas which used to fit to the NPA portfolio, now since that feeding line itself is choked, so definitely there may not be much pressure as far as NPAs are concerned as well as the provision related issue. Added to that, the business is growing at a healthy pace and during the first three quarters we have been able to sustain that growth. And powered by that our BCG's transformation exercise, I think we should be able to sustain good growth in the ensuing quarter. That is what internally we are planning and this is what I have explained to my board also today.

**Rohit Balakrishnan:** And sir last question, just a data question, how big is your agri portfolio? Quantum wise how much crores is your agri portfolio?

**M.S. Mahabaleshwara:** Agricultural portfolio is at 15.56% of total advances which amounts to around Rs.7,200 crores and out of this Rs. 295 crores is under NPA (0.40%). With respect to loan waiver, you are listening all those news, but what we have done is, we have treated the entire portfolio as per IRAC norms and provided also. So, if the loan waiver benefit comes, we may get some reversal of the provisions.

**Moderator:** Thank you. Our next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

**Rohan Mandora:** Sir, if you could share some insights into how is the portfolio behaving in the mid-corporate space? Say Rs. 100 crores to Rs. 500 crores ticket size in terms of turnover.

**M.S. Mahabaleshwara:** There are no advances in the range of Rs.100 crores to Rs. 500 crores which is in the mid-corporate and in our Bank, retail is up to Rs. 5 crores, mid-corporate is Rs. 5 crores to Rs. 15 crores, and above Rs.15 crores we are treating it as corporate. I will have to realign in due course. There are only a few advances wherein we have more than Rs.100 crores exposure and mostly in PSU companies.

- Rohan Mandora:** And sir like in the SME space, say in the companies having turnover below Rs. 100 crores, how is the working capital cycle behaving right now in last six months? And what is the sense that you are getting, are there issues with respect to GST getting sorted out or is it still an issue? And in terms of any geographical color or sector color wherein how is the portfolio again?
- M.S. Mahabaleshwara:** We have not seen the adverse impact of GST, because the MSME benefit and all whatever they are telling, invariably they have the GST registration, they will get a differential treatment. So, since in those brackets, even more than Rs. 50 crores or more than Rs. 100 crores, our exposure is very much limited. So, keeping that in mind, we are not seeing any pressure as far as servicing as well as operation of those accounts. And of course, now MSME restructuring scheme of Government of India has already come. And some of the accounts may take benefit under the scheme and we will also be examining that portfolio. But otherwise, we are seeing a good growth traction in the MSME advances, generally up to Rs. 20-25 crores and we are getting very good leads. So, these are the areas from where we are sourcing the business, and that is how we have been able to get good business traction in that. Our focus is now mainly on the retail advances up to Rs. 5 crores and the mid-corporate MSME advances generally up to Rs. 25 crores. We are not into taking huge exposure under the consortium or even the big tickets as of now.
- Rohan Mandora:** The entities whom we would have lent to in this smaller, like retail as well as MSME segment, are they availing unsecured business loans from other lenders, how is the scene you are seeing there?
- M.S. Mahabaleshwara:** I do not think so because we have been able to take care of all their requirements. Even if they avail the unsecured loan, first they should seek our prior approval from us. Even if they had availed, it gets reflected in their balance sheet and from our outside surveillance we will be able to contact them and to examine why they have gone for unsecured loan etc. Such instances are very less, I should say we have very disciplined customers. Few aberrations may be there, but that is not seen in general.
- Moderator:** Thank you. Our next question is from the line of Yuvraj Chaudhary from Anand Rathi. Please go ahead.
- Yuvraj Chaudhary:** Sir, this question is regarding your credit rating. So, this quarter under D the total exposure is around Rs. 873 crores, so if I talk about last quarter this exposure was Rs. 345 crores and there were eight accounts. So, basically this Rs. 500-odd crores accretion in accounts, are these new accounts or have these accounts been reclassified?
- M.S. Mahabaleshwara:** I did not get your question. This Rs. 873 crores is correct.
- Yuvraj Chaudhary:** Yes, so there are 24 accounts, number of borrowers would be 24 and the total outstanding is Rs. 873 crores.
- M.S. Mahabaleshwara:** It was at Rs. 1,099 crores about a year back with 22 accounts as of December 2017, there itself it is mentioned. I think you are taking this from our website, correct?
- Yuvraj Chaudhary:** Yes.
- M.S. Mahabaleshwara:** So, Rs. 1,099 crores was the balance outstanding under D rated, it has now come down to Rs.873.14 crores. And percentage wise it is 1.65%. C rated category is now Rs. 13.89 crores.
- Moderator:** Thank you. Our next question is from the line of Sudhir Mahajan, an individual investor. Please go ahead.
- Sudhir Mahajan:** Sir, you have taken Rs. 400 crores recently for capital allocation, what is the rate of interest you are paying on that?
- M.S. Mahabaleshwara:** Coupon was 12%.
- Sudhir Mahajan:** Is that not a little high?
- M.S. Mahabaleshwara:** In the prevalent market condition it was a very competitive rate of interest, at that point of time. Now I think if we again hit the market with the tier-II, I think people like you should be able to fully support us.

- Sudhir Mahajan:** Sir, next part is what is your total exposure to NBFCs? And are you taking any book from the any of the NBFCs?
- M.S. Mahabaleshwara:** There are two issues, one, we are not taking any additional exposure to the NBFC. At present we have NBFC exposure around 15.18%.
- Sudhir Mahajan:** Are you taking any book from them, from any NBFCs and all that?
- M.S. Mahabaleshwara:** I am coming to that. As far as your second question, i.e. portfolio buyout from NBFC, we are in active deliberations with around five to six NBFCs, two of whom we have already given the green signal after a thorough portfolio analysis. So, we are exploring that particular sector, i.e. the portfolio buyout from the NBFCs.
- Sudhir Mahajan:** And do we have any exposures to these NBFCs whom you are taking over?
- M.S. Mahabaleshwara:** Yes, we have, so it gets converted.
- Sudhir Mahajan:** It gets converted and closed out?
- M.S. Mahabaleshwara:** Yes.
- Moderator:** Thank you. Our next question is from the line of Pranav Gupta from Birla Sun Life Insurance. Please go ahead.
- Pranav Gupta:** Sir, just one clarification, you said the tier-II bond we raised at 12%, is that right?
- M.S. Mahabaleshwara:** Yes.
- Pranav Gupta:** And there are no switch to ARC this quarter, right?
- M.S. Mahabaleshwara:** ARC, one account with Rs.116 crores we have sold, so it was of course all cash deal. Rs. 116 crores was the sale in one account.
- Pranav Gupta:** And what was the realization on that?
- M.S. Mahabaleshwara:** It is an all cash deal, for Rs. 116 crores we have realized Rs. 37 crores.
- Pranav Gupta:** Alright. And what sector would that account be in?
- M.S. Mahabaleshwara:** In the steel sector.
- Pranav Gupta:** And just one last question, so in the last call you had spoken about an NPA target of 2%, that seems unlikely now.
- M.S. Mahabaleshwara:** No, in NPA what I said was below 3%, GNPA I said 4%, plus or minus 20 basis points, we are still holding on to that statement.
- Pranav Gupta:** So, you are already at 3%, right?
- M.S. Mahabaleshwara:** Yes, below 3% by March 2019. So, 3% and 4% broadly, so about 20 basis point plus or minus.
- Pranav Gupta:** And just one last question, apart from this sale of Rs. 116 crores you had an outstanding SR book of Rs. 440 crores prior to the sale. So, have any realizations started on the same or is that some time away still?
- M.S. Mahabaleshwara:** Small amount has started, on account of sale of Rs. 116 crores there is no impact on the SR, because as I said that was an all cash deal.
- Pranav Gupta:** Yes, that is an all cash deal. I was just talking about the previous outstanding SRs that you have.
- M.S. Mahabaleshwara:** It was Rs. 440 crores. September it was Rs. 438 crores, now it is Rs. 434 crores, small realization has happened, that's all. But if you look at the opening number, it was Rs. 447 crores, that is as of March 2018. So, now it has come down to Rs. 435 crores.

- Moderator:** Thank you. Our next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.
- Saurabh Dhole:** Sir, just two questions, one is on the ILFS exposure that you have for the entire group, what is the outlook on provisions? So, currently you have provided up to about 15% of the exposure, how do you see or how do you expect, do you plan to actually do some accelerated provisioning on this in the next three to four years?
- M.S. Mahabaleshwara:** As far as this infrastructure account is concerned, we are very optimistic of its resolution, because it is not only the banking requirement but also entire infrastructure sector as well. The Government of India has put in effective mechanism for its resolution. That apart, we thought that it is on prudence basis only we had gone ahead in treating it as stressed asset and started making provision. Since all these exposures are backed by realizable assets, going forward it will be a positive thing for the banks. So, keeping that in mind, since other areas NPAs have already started receding, we thought that we will take this hit during this quarter itself so that our future will be further brightened.
- Saurabh Dhole:** I understand that this account has turned into NPA during this quarter and as per IRAC norms you have provided 15%, but what I am asking is that for the next one year as we go by, as the quarters go by, do you plan to keep on increasing the provisions on these exposures through different group companies or would you just keep matching your provision requirements with what the IRAC norms suggest?
- M.S. Mahabaleshwara:** As of now we will go ahead in accordance with the IRAC norms only and we will take a call at that time. But the minimum requirement is that we have to follow the IRAC norms and we are committed for that.
- Saurabh Dhole:** And the second question was on CASA, I think it was asked by one of the previous participants also. As in consistently there has been gradual decline in the CASA ratio, what is the outlook here and how do we plan to arrest this decline?
- M.S. Mahabaleshwara:** The aspirational target is around 29% to 30% in about two to three years period. We are presently at 26.65%. We are very well aware that compared to last two years this is one of the lowest. But prior to the demonetization also we were somewhere around 25%, after the demonetization there was no sudden decrease, but decrease over the quarter is duly taken note of and appropriate remedial measure is already initiated. Going forward I am optimistic that it would show a positive traction.
- Moderator:** Thank you. Our next question is from the line of Rajat Sethia from VRDDHI Capital Investment Advisors. Please go ahead.
- Rajat Sethia:** Sir, what could be the impact of IndAS on our equity?
- M.S. Mahabaleshwara:** Are you sure that it is going to come during this year?
- Rajat Sethia:** What could be the impact on our equity needs?
- M.S. Mahabaleshwara:** As of now we have not received any guidelines, either from Reserve Bank of India or from the institute. And of course, the pro forma IndAS balance sheet we have been preparing for the last 1.5 years, and one thing what we have noticed is IndAS since it is mark-to-market it will be highly volatile, number one. Number two, it will be capital intensive. So, these things we have already taken note of and that is the reason why even though the date is not yet finalized and probability of its implementation is totally uncertain, we are preparing internally to prepare our bank for the IndAS hedging.
- Rajat Sethia:** And sir I think we have power assets of around, we have loans to power sector of around Rs. 3,000 crores, how much of that would be NPAs?
- M.S. Mahabaleshwara:** Power sector, see our total exposure is 4.88% of the total advances. Of that it amounts to Rs. 2,577 crores. And out of this Rs. 187 crores is the NPA.
- Rajat Sethia:** And sir, usually if you look at many other banks their power sector exposure most of them are into NPAs, so have we lent to government institutions here or what is the reason for lower NPAs?

