Karnataka Bank Ltd.
Your Family Bank, Across India

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SECRETARIAL DEPARTMENT

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To:

The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra-Kurla Complex
Bandra (E), Mumbai-400051
Scrip Code: KTKBANK

The General Manager
BSE Limited
Corporate Relationship Dept
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai-400001
Scrip Code: 532652

Madam/Dear Sir,

Sub: Transcript of Q3FY24 Earnings Conference Call

Pursuant to Regulation 30 read with Schedule III, clause 15(b) of Para A of Part A and Regulation 46 (2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we attach herewith the transcript of the analysts/institutional investors' Concall held on January 23, 2024 post declaration of unaudited standalone & consolidated financial results of the Bank for the quarter and nine months ended December 31, 2023.

The same is also made available on the Bank's website under the following web link:

https://karnatakabank.com/investor-portal/investor-presentations

This is for your kind information and dissemination.

Yours faithfully,

Sham Kanathila
Digitally signed by Sham Kanathila
Date: 2024.01.31 20:57:18 +05'30'

Sham K
Company Secretary &
Compliance Officer

Edited Transcript of

"Karnataka Bank Limited

Q3 FY24 Earnings Conference Call"

January 23, 2024

MANAGEMENT: **MR. SRIKRISHNAN H – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – KARNATAKA BANK LIMITED**
MR. SEKHAR RAO – EXECUTIVE DIRECTOR – KARNATAKA BANK LIMITED
MR. SHAM KANATHILA – COMPANY SECRETARY – KARNATAKA BANK LIMITED
MR. BALACHANDRA Y V – CHIEF OPERATING OFFICER – KARNATAKA BANK LIMITED
MR. ABHISHEK SANKAR BAGCHI – CHIEF FINANCIAL OFFICER – KARNATAKA BANK LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY 2024 Earnings Conference Call hosted by Karnataka Bank. As a reminder, all participant lines will be in the listen-only mode and 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Srikrishnan H., MD and CEO from Karnataka Bank. Thank you, and over to you, sir.

Srikrishnan H.: Thank you operator. Good evening, all, and welcome to the Q3 FY24 Post-Result Conference Call of Karnataka Bank. We have with us our Executive Director, our Company Secretary, our Chief Operating Officer, and our CFO. I will be leading the discussions, and in case there are any additional questions for any of my senior colleagues, we will ensure they have the opportunity to address them as well.

Today, we have uploaded three items. First, we have shared the stock exchange notification regarding the results following the completion of today's board meeting. Second, the Q3 FY '24 investor presentation has been uploaded to our website. I believe many of you have already accessed it, as this was done over half an hour ago. Third, we have issued a concise press release, summarizing the notable achievements for this quarter. Allow me to begin by expressing that this quarter has been exceptionally interesting for us, marked by significant achievements in alignment with the transformation agenda we embarked upon. I took charge in June and my Executive Director and senior colleague, Sekhar Rao took charge in February. Together, we define ourselves as the new management of Karnataka Bank, complemented by the presence of seasoned KBL veterans among our senior colleagues. We have a fantastic team of leaders whom we believe possess the capabilities required to navigate and drive this transformative journey.

The transformation agenda we initiated encompasses three to four key components. Firstly, we are focusing on various aspects of process improvement. Secondly, we are delving into numerous areas on the product side. Additionally, there's a significant emphasis on people, technology, and the overall business strategy. So, we have introduced new lines of businesses, enriched the existing products, launched new offerings, facilitated lateral hiring for leadership teams, and made substantial progress in terms of the process improvements.

But this is an ongoing journey, and naturally, we are required to run our business effectively every quarter. As we progress, we will consistently implement changes. Two key significant achievements this quarter include the appointment of our new CIO and Head of Technology, Mr. Venkat Krishnan. Formerly the CTO of IndusInd Bank, he has extensive experience working with multiple banks, such as Ujjivan Small Finance Bank, Yes Bank, Dhanlaxmi Bank, where he served as CIO.

Now, we’ve also welcomed Mr. Ramaswamy Subramanian as our Chief Product Officer. He previously served as the Chief Product Officer at Dvara Capital and held the position of Head of Products at Suryoday Small Finance Bank, as well as with HDFC Bank in the past. These are two key additions to the management team, and we are in the process of finalizing a couple more, which we will announce in due course as they come on board.

As far as quarterly results are concerned, we achieved an all-time high 9-month FY ‘24 profit after tax of INR 1,032.04 Crore as against INR826.49 Crore for the corresponding 9 months ending FY ‘23, representing a 25% increase. For the quarter, the figures are INR 331.08 Crore for Q3 FY '24, as opposed to INR 300.68 Crore in Q3 FY '23, indicating a 10% increase.

Now, this has been instrumental because of three things that happened. One is that our gross advances grew to INR69,741 Crore as of 31st December 2023, compared to INR63,673 Crore as of December '22. The very conscious decision made by the bank before we all boarded, was to reduce the number of loans that were highly ineffective in terms of both price and quality. It was a deliberate move to trim down the balance sheet size. Therefore, the balance sheet gross advances, as of 31st March 2023, were actually only close to INR 60,000 Crore. So technically, we have grown by around INR10,000 Crore in the last 9 months, and the same run rate continues. I think we are in good run here. The deposit side, we have grown substantially this quarter. Our total deposits as of December '23 stands at INR92,195 Crore. This is perhaps the highest and as against the INR 84,597 Crore as of 31st December '22, the increase year-on-year is 9%. And I'll also talk about both advances and deposits in terms of the market and how we are faring in the market.

On a cumulative average basis, our CASA grew up 8% year-on-year, and our monthly average of CASA also grew by 7%. So, it is not just end of term number that I'm reading out, it is also the overall average, which means that our customers keep the average broadly consistent even during the month. Now, our CASA percentage is retained at about 31% to 32% despite the movement.

As all of you know, this last quarter, all banks have faced a lot of issues related to deposits, and it is not only tough to acquire low-cost deposits. But the last quarter, we have had a very different kind of interest rate scenario, whereby the deposit rates and the overall market were different compared to the previous quarter.

Now, overall business turnover for the bank has crossed the landmark number of INR1,60,000 Crore. This currently is a very significant achievement for the bank. As of now, while I speak to you, we are over INR1,62,000 Crore. This is a 9% on a year-on-year basis and a 12% increase from the overall YTD basis from March '23.

Now there are two other very clear metrics that I want to call out. One is related to net interest income. The NII has increased marginally from INR822 Crore for the last quarter to INR828 Crore. However, the NIM, which is a very important parameter, we're still in the guidance range of 3.4% to 3.7%, which has been given to the investors and as provided to investors in our presentations, stands at 3.57%. The loans have been maintained at the same level. It is the cost of deposits that has been marginally higher than the previous quarter.

So, as a result, we are in a better position overall on the NIM, currently the NIM for the 9 months stands at 3.57%. Our ROA, is at 1.21%, and our guidance was always between 1.2% to 1.4%. We continue to maintain that, and our target range has been met here.

Return on equity, for this quarter was 14.26%, but for the entire 9-month period, it has been 15.18%. This is again very clearly within the guidance of 14% to 16%. This is what we have been telling the market, and we are well within the track related to that.

As far as the ROA, which I have already discussed, and cost to income are concerned, this is another metric that is very important. So, cost to income because of the expenses that we are incurring, includes the impact of the IBA settlement, which I have mentioned in the last investor call, where we are providing a 15% increase from November of '22 onwards.

But on December 7th, the IBA reached the settlement with the banks and the actual number was increased to 17%. So, we had to provide for 2% on a retrospective effect. The extra 2% that we have accounted for amounts to almost an extra onetime provision of about INR25 Crore.

Now, the total provision that we have made for the 17% from November '22, which will be paid out as and when the settlement is completed, will be to the tune of INR62 Crore. So, this is over and above the normal because this was not the case last year.

So, despite the increase in the cost that we are incurring on new technology, lateral leadership hiring, etc., the cost-to-income ratio is about 53%, and we are very confident that in the next couple of quarters with the growth in revenues and with the growth in our overall income, we will be in a position to control this and bring it back to sub-50. This has been our target, and we believe that we will achieve it.

Yes, Cost to income on the 9-month basis is 51%. The other part is about the quality of the assets. The net NPAs have improved it is at 1.55% from the 1.7%, which was March '23 results and 1.66% in Q3 in corresponding last year. So overall, there's been a reduction in the net NPA. The gross NPA has also improved in quarter to 3.64% from 3.74% as of March. And of course, compared to the last year, which is Q2 FY '24, it was about 3.47%.

So, the slippages are an area of a little bit of a concern. It's not that bad, but the slippages are at about 0.8%, only because of the fact that there were bunch of assets which were classified as restructured assets. The restructured assets have come down drastically. And I can also tell you all that the total restructured asset for the bank is less than INR2,000 Crore. On the other side, some of these are stressed up, and they are contributing to the NPA. We believe that in the next 1 to 2 quarters, with great monitoring and very close attention, we should be able to control this.

Our capital adequacy stands at 15.88%, and as all of you are aware, we raised money in October, where we secured INR 800 Crore from five marquee and social investors. The institutional shareholding in the bank has increased to close to 40%, and the Tier 1 capital currently stands at 13.66%, and Tier 2 is 2.22%.

The reason for the reduction in Tier 2 is because in November, we have repaid INR400 Crore of Tier 2 capital, which was quite expensive at 12%. We have completed the call option. We are also planning to do another call redemption in February when another batch, which is a tranche of INR 320 Crore would be available for us for making the call options. We will be exercising the option. We have already sent our approval request to the regulators for the same. This would definitely result in a better net interest cost for us because the overall cost was very high.

One other thing that I wanted to also talk about is the cost of funds improvement that we are achieving. The bank has been approved, and we have gone live for collection of CBDT, which includes direct and indirect taxes. We already were live for customs duty payment and also for GST collection.

So, for the key markets for all our borrowing accounts and all our savings and current accounts, all of these customers we are promoting this both digitally as well as through our branches.

And we believe that the collections part, due to the government business and also the fact that we are an agency bank and we are approved to open government accounts, both for the state government as well as for the central government, we believe that there is a good possibility. We anticipate that exercising these options which include calls on Tier 2 bonds plus the current account, the CASA push to the government business and the flow that we get from the GST taxes and customs duty collection would definitely have a positive impact as far as our cost for funds is concerned.

The credit cost for the quarter was at 0.25% and it's more or less at the same level as the previous quarter. Standard restructured advances, as I mentioned earlier, are less than INR2,000 Crore. This is a significant improvement compared to the previous quarter, where in the last year corresponding quarter the number was pretty high. So, there are a lot of conversions that have happened from the restructured advances into standard assets.

Now, the last part that we wanted to talk to you all is the fact that going forward, you are all aware that we have an approval from the Board for raising INR1,500 Crore of capital which includes options, which is in the form of instruments as preferential allotment or QIP or bonus or whatever instrument that is applicable. So, we have exercised that and raised INR800 Crore. So, we have to raise the remaining INR700 Crore to make sure that we are comfortable.

Our capital adequacy is comfortable, but we need growth capital. Additionally, the fact that we are going to repay another INR320 Crore of Tier 2 bonds in February, that is also an option we will need to exercise to augment the capital. We are working towards making that happen. We have also released to the stock exchanges today that the Board is meeting on 27th this month, again, which is 4 days from now to discuss the issue of capital raise for the second tranche, which is a total of INR700 Crore.

On that note, I will transfer it back to the Moderator for questions. My senior colleagues and I are ready to address any queries. Over to you, operator.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Narendra from RoboCapital. Please go ahead.

Narendra: Congratulations on a good set of numbers. Sorry, I missed earlier part of your statement. So needed a bit of guidance on your loan growth going ahead and your credit costs, if you could provide something on that?

Srikrishnan H.: Okay. Thanks, Narendra. Good evening. So, our gross advances on a YTD basis have grown at 18%. It stands at INR 69,741 Crore as of 31st December '23. The run rate that we are expecting as we go forward is more or less the same. We stand committed to what we had mentioned. I had gone live saying that by 2026, we would cross INR100,000 Crore. I think we are well on target to achieve the same if that gives you an answer on the gross advances part.

Narendra: Yes. And regarding your credit cost, sir?

Srikrishnan H.: It's 0.25% right now, and we believe that we would very much be in the same level. It was the same level as of the last quarter also. Our total cost, which includes total lending, etc, more or less has been also the same.

Narendra: Okay. That's very clear. And regarding your cost of funds, sir. So, I see that cost of deposits are going up. So, at what level should it stabilize? Is there further chances of a hike in cost of deposits? And also.

Srikrishnan H.: The whole market has been looking at this interest rate scenario. A lot of pundits have been saying that by middle of this calendar year, that's like June, the rates are assumed to be coming down. We also believe that from our treasury perspective, the same thing will happen. And right now, the cost of the, let's say, the low-cost deposit has been a challenge in the market for all banks.

So, all the banks this quarter have had this issue, which is why the total cost of funds has gone up a little bit. But having said that, our NIM is intact, we are not much concerned on that, partly because of the loan growth and at a very reasonable rate. So, we have not really gone lower as far as the loan rates are concerned. So, the interest rate on advances has been kept steady or it has been improving and low cost of deposit has been a challenge.

So, we have not been in the market to, let's say, do the bulk deposits at a very high rate. We have never been in that market. Our entire deposit franchise has been granular. Our entire deposit franchise has been more from the current and savings account holders who have been with the bank for generations.

As you are aware, this is a centenary year of the bank. We recently met up with a lot of customers at multiple locations as part of our centenary event, where customers who have been banking with us for 2 to 3 generations, they were present. So, it is a very overwhelming situation when we met them. Very pleasing.

Narendra: Yes. You have done indeed a commendable job on that plan. So, your NIMs going ahead should be in the range of 3.4% to 3.7%, right?

Srikrishna H.: Yes, sir. We are not moving that guidance at all. We're staying clear...

Narendra: Okay. Good to know. And regarding your other income, so how should that pan out for the next couple of years?

Srikrishnan H.: Good question, Narendra. So, this bank, we have not had much of a cross-sell or, let's say, other products in the forex or FX side or in the trade finance or in the third-party products. So, what we are doing is focusing a lot on the cross-selling and penetration. We are also having an analytics center, which is doing a lot of data-driven acquisition strategies by providing lead generation to customers based on transactional behavior.

So, our Analytical Center of Excellence, which is in Bangalore actually provides data to all branches for their set of customers who, for instance, if, let's say, they are paying an EMI loan and not necessarily have availed of a loan, then that's a good case for a home loan or a top-up loan or a home improvement loan or something like that.

Likewise, if it is a policy premium that is being paid out of the account, and we have the ability to track that for our own set of customers to go ahead at a branch level or at the field sales level and make sure that we are able to sell a policy. We've also tied up with new partners for life as well as the non-life.

So, we have already appointed two large new insurance life partners, HDFC Life and Bajaj Alliance Life, and we will be doing the same in the non-life, that's the general insurance side also.

Narendra: Okay. Yes. You have been doing a commendable job on the tech side. So that brings me to my next question is regarding your opex. So has the going ahead, would the investment slow down? Or are we still going ahead full steam on the tech side investment?

Srikrishnan H.: So as far as the baseline applications are concerned, we are good on core banking, we are good on the data lake, we are good on the digital journeys, we are good on the front-end applications, we are good on the back-end infrastructure, including our DR which we shifted recently from Mangalore to Mumbai to be in a different geo-location. So, all of those have been achieved.

So, the incremental spend that we'll be doing is to make sure that the integrations with collaborative businesses, which are essentially for fintech, co-lending, wealth management products, all of the third-party products that we are doing, etc., is something that we are going to do.

All of the tech expenses that we'll be doing are mainly going to be capex from that perspective, and which is why we are also making sure that our capital raise will make sure that we are quite comfortable on that front. So, we have done reasonably well, and we believe that the transformation which is from a technology product and process perspective, involves a lot of investments, which will continue, but those will be, again, very clearly product and opportunity to us.

Narendra: Okay. But so, FY '25, you should be cost to income, you should be below the 50% mark, right?

Srikrishnan H.: We are aiming to become lesser than sub-50%. Over to you, operator.

Narendra: Okay. Thank you so much and all the best. I'll join back if I have any questions.

Moderator: Thank you. Our next question is from the line of Prabal from Ambit. Please go ahead.

Prabal: So, the first question was on asset quality. If you can indicate the movement in GNPA during the quarter, that the slippages, recoveries and upgrades and technical write-off?

Srikrishnan H.: Hi, Prabal. So, as I had earlier, the GNPA has improved in Q3 to 3.64% from 3.74% as of March and this is the 10 bps that has come down as far as the GNPA is concerned. As far as our gross NPA and slippages ratio, our gross NPA overall, from an opening of INR2,324 Crore have gone up to INR2,537 Crore. I had mentioned in the earlier part of the call that we are seeing some movement from the restructured asset into the NPA. But it is very much in control.

The reason being that our branches are engaged with personal visits to each one of them. So, the additions during the quarter has been INR 516 Crore, and the reduction in terms of write-offs, etc, is INR 303 Crore. The overall position remains at INR 2,500 Crore.

Now slippages ratio, we are at 0.8%, which has gone up compared to before for the same reason that I mentioned because the previous quarter, we were at 0.52%. And quarter-on-quarter basis, this is an increase, but I believe that in the next 1 to 2 quarters, this will stay, and then we should get into a comfortable position.

Prabal: Okay. So, slippage is INR516 Crore for the quarter and recoveries and upgrades were INR173 Crore and write-offs 0?

Sekhar Rao.: Write-offs were sir, INR130 Crore.

Prabal: INR129 Crore. So basically, recoveries were just INR50 Crore?

Sekhar Rao.: No both put together INR 303 Crore. Write-off plus reduction excluding write-off was INR 174 Crore, write-off INR 129.62 Crore, both put together INR 303 Crore. And the write-offs are fully provided for. So, it is just moving to technical write-offs from fully provided account.

Prabal: And these messages because you are mentioning that this has come from restructured accounts. But within the restructuring, around 55% of the book is just mortgages. So, if you can give some color on the slippages as well, how much will be corporate and what will be the retail and so on and so forth?

Srikrishnan H.: So that we understand this, up to close to 95% is collateral based. So, we do not have any unsecured from that perspective. Second is the breakup between retail and corporate is about close to 50/50. So, there isn't a change as far as that is concerned. And the last part is on the total what was the third question, sir?

Prabal: So, my question was breakup of slippages. So, this INR516 Crore, how is that distributed across segments?

Srikrishnan H.: So, across the segments, it is actually more of the SMEs and the MSMEs that have happened. I would say that close to 70% to 75% of the slippages have happened only from the MSME and SME books, which we have lent earlier. So, in many banks, these are treated either as midsized corporate or SME depending on the definition, but our definition has been SME and MSME for this.

Prabal: Okay. And any assessment of what is this kind of vulnerable pool within the restructuring which is sitting in the bank currently?

Srikrishnan H.: So, we've made some accelerated provisions in the last couple of quarters, including this quarter. So, we believe that, let's say, close to 35% to 40% of the current book, which is a restructured book of close to INR2,000 Crore, would be in some kind of a stress. But having said that, there is a lot of engagement, happening at the branch level. So, if I need to quantify that, it would not perhaps exceed about INR 600 Crore to INR 700 Crore or maximum INR 800 Crore.

Prabal: Sir isn't that surprising? I mean, a big portion of the restructured book is mortgages and SME and MSME and around 35% even in an environment like this is still under stress?

Srikrishnan H.: This is all the historical book, Prabal. So, what has also happened is that this has been something which we have flagged off earlier on the total number. From the total number of restructured assets post

COVID, the bank had close to INR4,500 Crore. From there, we have brought this down to sub INR2,000 Crore right now.

So, there is a significant progress that has happened in terms of making them all standard or making them into NPA and writing them off, we've fully provided for in the previous quarters. As I said, we are managing it through accelerated provisions and also making sure that this number does not really have any impact as far as our overall growth in our numbers is concerned going forward.

Prabal: And how much is the coverage on the restructured pool currently?

Srikrishnan H.: Standard, 13%.

Prabal: So where is exactly accelerated provision sitting on the balance sheet?

Srikrishnan H.: In the overall general provisioning, NPA provisioning it is sitting.

Prabal: Okay. And any targets of where do we plan to take provision coverage ratio?

Srikrishnan H.: The overall PCR with technical write-off, we are above 80%. So, we are hovering around 81%, 82%. And it continues to be the case. We have not dropped from there. And as far as our excluding technical write-offs, we are at about 58-odd percent. And our attempt, obviously, is to take it to 70% in due course. But that is definitely not going to happen within a year. So, it will take probably about 15 to 18 months to reach that mark.

Prabal: Okay. Got it. And next question will be on growth. So, we had a credit to deposit ratio of 73% and additional liquidity on the balance sheet, which was a drag to our margins, and we had planned to ramp up the credit book quite significantly. But I don't see that traction happening in the third quarter. Only corporate has grown, MSME has not grown. Agriculture, retail, none of them are growing. So, anything that has changed?

Srikrishnan H.: So, we have grown the overall asset book by 18.3% in this quarter also. So, there is no change to the overall number. As far as retail and MSME is concerned, we have deployed during the quarter, 250 sales officers from the bank and 400-plus feet on street in the ground to look at both CASA as well as the retail assets. Now we also employed 2 other agencies who are there, who are for the retail asset sourcing. So, this is something that we have invested into, and the results of that will start coming in, one.

Secondly, all the branches have been equipped with lot more empowerment from a process perspective on approvals to be given either in principle or the processes related to credit approvals for the retail asset in a much faster pace instead of the earlier process. And we have set up 5 regional processing centers and we'll go up to 8 where it is empowered, and they are able to actually get the approvals done. So, the real ramp-up is going to happen on the retail side.

The other part is that the overall growth is not necessarily in the other area. Out of the total gross advances, INR 69,741 Crore, this is about close to INR3,500 Crore of total assets that has grown. And out of the INR 3,500 Crore, at least close to INR 1,000 Crore have come from retail and agri.

Moderator: Our next question is from the line of Hatim Broachwala from JM Mutual Fund.

Hatim Broachwala: Sir, my question is on the loan growth. So, it has been observed that this quarter, the bulk of the growth is there from the corporate and it is from the large enterprise segment, which typically is low yielding. And also, that impact is seen on the NIMs. So NIMs of 3.46% is now closer to at the lower end of our guidance. I want to understand your perspective whether this is like a temporary park-in which we have done or how the growth and NIM you will be planning ahead?

Srikrishnan H.: So, the question that you had is about the growth in advances. The growth in advances has been at 18.3%. So, I don't think that there is any slowdown as far as our overall gross advances is concerned. It is also important for you to note that we have been lending at the reasonable rates. So, our total cost of lending, the interest rate has not come down. The real pressure due to the NIM compression has happened by a couple of this here or there is only because of this deposit side.

On the deposit side, the whole market has faced in this quarter, it is not only pertaining to Karnataka Bank. It is important for you to know that each of the banks has had pressure on the NIM. This is basically because low-cost deposits were not available in the market that easily. Secondly, there are also very high cost as far as the FDs are concerned. We did not go for buying those FDs. So, we have managed it.

There was a question earlier also, which I did answer about the CD ratio of the bank. The CD ratio of the bank was earlier at 69% and 72%. But this quarter, we have gone up to 76%. So whatever headroom was available, we have already gone up to that.

So, I believe that the growth has been very encouraging and very healthy as far as the overall margins are also concerned. So, we will maintain the NIM margins between the 3.4% to 3.7% guidance. I do not see any change to that in the quarters that are coming up.

Hatim Broachwala: Okay, sir. My other question is on this wage hike provision, which you have mentioned that you have provided INR25 Crore extra during the quarter. So, is this like a one-off? Will it repeat in next quarter? Or this INR25 Crore won't be there next quarter?

Srikrishnan H.: No I'll just explain that to you. As of November, '22, IBA settlement, they had announced saying that they're negotiating with the banks. And the number that could be perhaps coming up was a 15% increase from November '22 onwards. So since then, we've been providing at the same 15% on a quarter-on-quarter basis.

On December 7, IBA reached an agreement with the banks where the total number was given to us as 17% as an indicator on the final rate. Because we have not provided 17%, we have provided only 15%, we had to do a retrospective effect from November '22 onwards, and the total onetime provision for this quarter was INR25 Crore. This will not recur again.

Hatim Broachwala: Okay. And sir, lastly, what is your outlook on gross NPA going ahead?

Srikrishnan H.: So, we are at about 3.64%. We want to first come to the level of 3%. So that is our immediate target. So, we should take it to 3% in about 6 months from now. And we believe that there will be a corresponding reduction in the NNPA as well. And provisioning as well as the accelerated provisioning and slippages should be better controlled compared to before.

So, we believe that we are well past that stage when there is any risk as far as the bank is concerned on the book. Yes, this was a traditional legacy bank. The new management has taken charge, and we have cleaned it up as much as possible on the asset side ad overall in terms of the transformation revenue that we want to make.

Hatim Broachwala: Sir, reaching 3%, considering that you also have some more stress in the restructured book. You mentioned INR700 Crore around stress is still left in the restructured book. If that slips, then reaching 3% would be would it be possible? I mean...

Srikrishnan H.: Yes. There are actually 3 things. One is that we've been providing for it as an accelerated provisioning for this book. Secondly, there are recoveries that are happening. And the third is that there are conversions to stand up on this book also.

All the 3 will contribute, and we believe that we should be very comfortable because the book size is also not that much compared to our overall INR7,000-odd Crore gross advances book. So as a percentage of the overall book and as a percentage of the risk that we are facing, we believe that it is getting minimized because as I told you, the book was post-COVID close to INR4,500-odd Crore.

Hatim Broachwala: Sir, what is the provision we are holding against these standard restructured loans?

Srikrishnan H.: No, it's part of the overall NPA provisioning that we have done. So, whatever that on the standard side, that is 13%.

Hatim Broachwala: And do we hold any contingency provision?

Srikrishnan H.: No.

Moderator: Thank you. Our next question is from the line of Sushil Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey Congratulations to Karnataka Bank team for a stable result. First question, what kind of interest savings are we seeing from the bonds which we are likely to redeem?

Srikrishnan H.: So, the bonds are at 12%, and we believe that obviously, if we must look at liquidity, the market is at about 6% to 6.5% right now. So, there is a significant savings. So definitely, on a overall basis, there could be a significant savings. But having said that, as we raise money, both on the Tier 1 and Tier 2 there will be consolidated, let's say, a blended kind of provision. So overall, I think on the book about 8 to 10 bps is what we can expect in terms of the NIM improvement because of this.

Sushil Choksey Any further bonds of the high cost left or this is fine?

Srikrishnan H.: No, this is the final right now on the next tranche so 300 is still left at 10.7 which is not bad.

Sushil Choksey Okay. My next question, 100-year celebration, centenary celebration and migration to the next 100 is what Karnataka Bank's story is all about for last 6 to 12 months with new induction of yourself, ED

Sekhar and few other management executives, which are joining and including the announcement happened. How much of transformation journey the journey has begun, but what is the period you estimate on a stage 1 level basis, whether we'll take the transformation journey within the next 6 months, 1 year or it will be a longer period?

Srikrishnan H.: So, the transformation journey from that perspective is ongoing. Obviously, there's a question of what is the milestone that you are defining for your 1-year period, etc. But if you really have to say that let's say, Karnataka Bank, we have to be a retail asset business full way competing in the market or let's say that we have to be in the SME on a digital basis and acquisitions and so on.

The alternate channels were offering third-party products through the digital bank. All of that kind of I just give you some example in favour of in what we are working on, all those things should get completed within a 1 year.

And the other part is that we are also growing the book. We are also growing the book healthy. Secondly, we are also maintaining the NIM margins, etc., impact and controlling on cost. So, which means that overall, the book will grow in a controlled basis, but new products and also new market, new opportunities we will be chasing.

For the centenary year, we have been in the celebratory mode. So, we have done some customer events in Bangalore, Mumbai, Delhi, Hyderabad. And now finally, we will do one big event in February in Mangalore in the headquarters.

And what we are trying to do is to make sure that we're getting the customer connect and getting the cross-sell from our existing customers. Perception of the bank, which is from a brand repositioning side, there are some efforts that you will see in the next 10 to 15 days, where we will be projecting ourselves as national story rather than being a regional story. So, this is how the transformation is happening on multiple fronts.

Sushil Choksey Do you think the integration of human resource technology, the new initiatives, new management team, including the ones which you are going to hire and recruit in the next few days or a few quarters, all this would be panned out in '24 or up to '25 March or it will take longer?

Srikrishnan H.: It will be up to '25 March in terms of the overall balance. But going by the current trend, at least a strategic leadership position and the mix between our Karnataka Bank veteran management and our new lateral senior leadership management who's coming in, by that time, would be more or less like a 50-50.

Sushil Choksey Do you expect positive results from current quarter, next quarter or by second half?

Srikrishnan H.: We are on the right trajectory as far as the growth is concerned, and we believe that we will be growing at the same pace and improving the pace as we go forward.

Sushil Choksey No, I'm not worried about the pace. The business is available. What I mean is more from a point of view, cross-selling, many other product launches. There would be a cost involved at first spend, but you will have earning capacity and capability to market, maybe a customer is doing home loans but maybe taking 3 more products from you. So that would eventually have an impact on your bottom line. That should be visible in the next 1 or 2 quarters or longer periods.

Srikrishnan H.: In 2 quarters, we have already created a product and a sales organization in the bank. We believe that the kicker from that will start yielding from the next quarter onwards. So, we believe that a total of 2 quarters which is like for June this year, we will be in a much better shape where all the new investments and new initiatives that we are taking up will start yielding results.

Sushil Choksey Best wishes for the centenary year celebration and years to come.

Srikrishnan H.: Thank you so much, sir. Thank you for all your support.

Moderator: Thank you. Our next question is from the line of Sudhir Mahajan from Mahajan Family Office. Please go ahead.

Sudhir Mahajan: Congratulations. And my question is you had mentioned that you are having an issue of capital in the next few days. That is going to be, again, the balance of the INR700 Crore, which is left? Or is it going to be less?

Srikrishnan H.: Mr. Mahajan, good evening. Yes, it will be part of the INR700 Crore what we are seeking an approval from the Board. The Board has already approved INR1,500 Crore. So, we just need to kind of initiate action related to that and for which the Board is meeting on 27th, but then it is not going to happen.

The issue is not going to get done within the few days, as you said. So, it will take perhaps some time. But then at least the Board will give us directions in terms of raising money and type of instrument that we need to do, etc. So, more clarity will emerge post 27th in terms of that part. But to answer your question specifically, it will be up to a total of INR700- Crore.

Sudhir Mahajan: The next question is, I think you mentioned something like a bonus. Are you thinking for bonus or a split or something?

Srikrishnan H.: No, I said that the Board had approved 3 or 4 other instruments, which are permitted. One is the preferential allotment, the second is a QIP, the third is a bonds, which is what the AGM approval also had happened in September and October, I was referring to that. So, I do not think that there is any plan related to bonus.

Sudhir Mahajan: Okay. And my suggestion, why don't you think about the split?

Srikrishnan H.: At an appropriate time, we will do that, sir.

Sudhir Mahajan: I think it will be very beneficial for the shareholders?

Srikrishnan H.: Thank you, sir. We will note

Moderator: Thank you. Our next question is from the line of Kunal Sukhwani from Indvest Group. Please go ahead.

Kunal Sukhwani: There's one question from my end. Sir, as per the RBI circular, did we provide anything for our AIF investments, if we had any?

Srikrishnan H.: Kunal, we do not have any exposure on AIF, so we have not provided any additional amount in this regard.

Moderator: Our next question is from the line of Jagdish Sharma, who is an investor.

Jagdish Sharma: Sir, what is the other section on the GNPA breakup, which went from 1.1% to 5.7% quarter-on-quarter? What is that actually? On page number 32, what is the others section in the GNPA breakup? There is something called others in the GNPA breakup section in page number 32.

Srikrishnan H.: Page number 32, GNPA.

Jagdish Sharma: Yes. It went from 1.1% to 5.7% quarter-on-quarter. So, what is that actually?

Srikrishnan H.: On the sector perspective.

Jagdish Sharma: Yes, sector wise?

Srikrishnan H.: Can we get back this is about the sectoral part, right?

Jagdish Sharma: Yes, sectoral part. In the asset quality, in the sector world, we have given 5.7% as others. Others is 5.7% it constitutes. So, what is that? Because...

Srikrishnan H.: Basically, whatever we can't classify into the defined sector, we classify under others, sir, nothing else.

Jagdish Sharma: Okay. Because it went from 1.1% to 5.7% because others have come down. Only others and this MSME went up. Other than that, agri, housing and all these things have come down. So, what is that actually? That is like a because it went up by 400 bps, that's why I asked you that question, sir.

Srikrishnan H.: I do not think that the amount is very significant in absolute terms. But having said that, allow us to come back on this, please.

Jagdish Sharma: Okay. Fine, sir. My next question is like my second and last question is like though the GNPA, like NPA come down from 9 months or year March '23 perspective. But these have started to go up quarter-on-quarter. If you see the last quarter and previous quarter, it has gone up. So, what is the main reason for that?

Srikrishnan H.: The main reason is what I have stated earlier in for another similar question.

Jagdish Sharma: Restructured advances.

Srikrishnan H.: The restructured book that we had it was about INR4,500 Crore. From there, we have gone down to INR2,000 Crore. So, as we go now, there is a standard asset conversion, there is also an NPA conversion, which is provided for, and there could be a write-off in terms of in all the slippages. So that is the reason for this. But we believe that we are in total control. And the overall percentage of this residual amount in the book on the overall gross advances, it is not a very significant amount for us.

Jagdish Sharma: Okay. Please reply me the first one, sir.

Srikrishnan H.: Yes, we'll get back to you, sir. If you can even write to us on the maybe ID which is there on the website, we will reply to you so that we get to know who you are.

Jagdish Sharma: Definitely, sir.

Moderator: Thank you. Our next question is from the line of Yashwanth Kumar Thippeswamy who is an investor. Please go ahead.

Yashwanth Thippeswamy: So, my question is on CASA ratio front. So, I've been following up, and then there are quite I mean, therefore, few details which has been shared with the exchange with respect to government businesses are open, and we are also opening the platform in order to do a GST and other forms of government business.

So, having said this, there is a decline with respect to CASA ratio. So where do you see this to stabilize? Or can we expect some kind of improvement considering the kind of advances that we are planning to?

Srikrishnan H.: So overall, I think you are aware that all the banks have been facing a drop in the CASA balances. So, the real cost of deposits for the bank have been higher in this quarter. And this is typically whatever results that we win, this is a seasonal cycle where Q3 essentially it happens.

The second part to counter this is that we have been growing the assets at more or less a good range so that we do not have any impact as far as our NIM is concerned. So, our net interest margin continued despite this challenge on the cost of deposits, which has gone up, but still at about 3.4% to 3.7% and I think we will remain there only. The last part is that our CASA ratio has been about 31% to 32%.

And even in this tough quarter, we have continued to maintain that. That is also a good thing. The reason is that we also have the float business, which is coming in by way of this government collections and also a significant increase in our current account and the agri portfolio that we have, which is coming back as deposits to us because post the harvest season, there is always in flow to the bank and we at Karnataka Bank have been seeing this for several years in the past. So, this is part of our regular, let's say, routine, that happens as a seasonal trend.

Yashwanth Thippeswamy: Okay. And coming to the gross NPA, just like you have given the reason also, but I'm very much particular with respect to the sector although it is the industry. Is it standard across industry that you are seeing? Or is it the only legacy issue that Karnataka Bank advances that you had to deal with?

Srikrishnan H.: I think partly legacy, I think mainly it is COVID related. So, it has nothing to do with Karnataka Bank alone. It's also part of the overall industry. I mean, any bank of this size has gone through this. But we at Karnataka Bank have been taking preemptive steps in the past post COVID and then ever since we as new management came in; we've been focusing on the growth through transformation and also making sure that we are providing for the growth through additional capital. And last but not the least, we are controlling the growth of the book with good health. So, we are doing a combination of all this to ensure that we grow with quality and not necessarily just grow in quantity. And we believe that we should be better off as we go forward in the forthcoming quarters.

Yashwanth Thippeswamy: Okay. And my last question is with respect to the capital. So, the capital that we are planning to is to help boost our book, I mean, advances as well. For how long do you think with the current capital increase, can we go I mean, what mileage would it give us to raise this INR700 Crore capital?

Srikrishnan H.: Capital adequacy is comfortable, we are at 15.88%, and this is not including the 9 months of profit, which we have not accounted for because as per regulations, we are allowed to do this only during the audited result. That will happen only post the year end.

Now with that, I'm just telling you that we are far more comfortable. But the real reason that we are raising capital is 2 parts. One is that we have this high-cost Tier 2, which is to the tune of INR320 Crore maturing or available for call option in February.

And the second is that we are investing a lot into technology and where we need some capex and the growth in the sales on the front-end sales teams, which we need to invest for getting better returns as far as our retail business both on liabilities and assets are concerned.

So that is the reason that we are raising. So, with our capital adequacy, we believe that additional capital that we are planning to raise will be very good for at least the next 15 to 18 months for the growth because just to give you the sense on that, every INR10,000 Crore of increase in the gross advances, we have to allocate INR1,000 Crore of capital to ensure that we stay at the same level of capital adequacy.

So, we want to stay the same way, which is why we believe that the plough back that happened from the profit and the churn that happened because of Tier 2 and additional capital we raised, we should be good for at least 18 months plus. Moderator: any other calls?

Moderator: No sir that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Srikrishnan for closing comments.

Srikrishnan H.: So, thank you very much to the investor community, capital market community, institutional investors who have taken and trusted us, the faith has increased our institutional holdings from the 7%, 9% onwards to almost like close to 40%, and that's a very healthy sign as far as the bank is concerned. We are quite receptive to any changes that are required as far as the bank's trajectory is concerned.

And we believe that with the right kind of management, lateral leadership changes, the right investment in the technology, right market positioning, brand positioning and more importantly, good health in terms of the quality of the book, the existing as well as the new, we believe that we are on the right track and we believe that we will be able to make the same amount of progress in terms of the growth percentages across various methods as we go forward. Thank you very much for your participation today.

Moderator: Thank you. On behalf of Karnataka Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Srikrishnan H.: Thank you so much.