Karnataka Bank Ltd.
Your Family Bank, Across India

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SECRETARIAL DEPARTMENT

31.07.2024
HO:SEC:111:2024-25

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 Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai-400001
Scrip Code: 532652

Madam/Dear Sir,

Sub: Transcript of Q1FY25 Earnings Conference Call

Pursuant to Regulation 30 read with Clause 15(b) of Para A of Part A of Schedule III and Regulation 46 (2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we attach herewith the transcript of the post results analysts/institutional investors conference call held on July 24, 2024, on the unaudited Standalone & Consolidated financial results of the Bank for the quarter ended June 30, 2024.

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

https://karnatakabank.com/investors/quarterly-results

This is for your kind information and dissemination.

Yours faithfully,

Sham Kanathila
Digitally signed by Sham Kanathila
Date: 2024.07.31 15:22:49 +05'30'

Sham K
Company Secretary &
Compliance Officer

Edited Transcript of

"Karnataka Bank Q1 FY2025 Earnings Conference Call"

July 24, 2024

MANAGEMENT: MR. SRIKRISHNAN H - MD AND CEO
MR. SEKHAR RAO- EXECUTIVE DIRECTOR
MR. RAVICHANDRAN S – GENERAL MANAGER (CREDIT SANCTIONS)
MR. JAYANAGARAJA RAO S- GENERAL MANAGER (BRANCH BANKING AND RETAIL)
MR. VINAYA BHAT P J- CHIEF COMPLIANCE OFFICER
MR. ABHISHEK SANKAR BAGCHI – CFO
MR. SHAM K. - COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2025 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 '*' then '0' on your touchtone 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, Siddharth. Good evening to all ladies and gentlemen. This is Srikrishnan – MD & CEO of Karnataka Bank. I am speaking to you from our headquarters in Mangalore.

I am joined by Executive Director – Sekhar Rao, Senior Management Team members, GMs, Ravichandran – Head of Credit; Jayanagaraja Rao, who is GM in charge of Branch Banking and Retail; the Chief Compliance Officer – Vinaya Bhat; CFO – Abhishek Bagchi and Company Secretary – Sham K. So, we are happy to talk to all of you and introduce the Q1 FY25 Results of Karnataka Bank.

Post completion of the successful centenary year in FY23-24 wherein we had major celebrations in February '24, the financial achievements that included the highest record pre- and post-tax profit, and a record capital raising program, we are very pleased to inform you that we had a very good Q1 for FY24-25 with growth that has been registered across most of the key metrics. We continue to focus on the critical metrics that will define our Bank's performance in advances, deposits, improvement in quality of the advances book, profitability and NIM and very favorable ROE and ROA for our stakeholders. We are on an accelerated path in all of these.

Some very brief comments about the numbers:

We have recorded the highest business turnover in the history of the Bank at Rs.1,75,619 crores. This is up by 17.1% on a Y-o-Y basis from June '23, which was the corresponding quarter Q1 of FY24 and by about 2.7% on a Q-o-Q basis from the quarter ended March 2024.

On profit after tax, we recorded the highest ever quarterly profit in the history of the Bank of Rs. 400.33 crores for Q1 FY25, as against the last corresponding quarter Rs. 370.70 crores for Q1 of 2023-24. That is an increase of about 8%.

On a Q-o-Q basis we saw a significant rise in PAT which was Rs. 400 crores for Q1 FY25. Of course we had a one-timer there, but on the basis of actual which is Rs. 274.24 crores recorded in March of '24, the increase has been 45.98%. Due to a change in the accounting policy, which is again dictated by the Reserve Bank of India, guidelines pertaining to investments, transitional adjustments on account of available for sale, which is the AFS book, and other securities has been credited to the AFS reserve, contrary to how we were taking it into P&L earlier. So, the transitional adjustments on account of 'Available For Sale' ('AFS') portfolio and other securities has been credited to "AFS Reserve" and opening "Revenue Reserve" to the extent of Rs. 106.88 crore and Rs. 24.68 crore respectively. If we had continued the earlier policy, the income on investments would have been lower by Rs. 7.67 crores, but other income would have been higher by Rs. 40.41 crores, whereby profit after tax would have been higher by Rs. 32.74 crores. Now this has not been taken into our profits as I said earlier, and this has been transferred to the AFS Reserve Book.

On the other parameters, starting with gross advances, we clocked the highest is the Bank's history of Rs. 75,455 crores as on June 30th, 2024, as against Rs. 73,002 crores as of March 31, 2024, reflecting a growth of 3.36% on a Q-on-Q basis. On a YoY basis, we witnessed a growth of 19.75% when compared to the Q1 of 2023-24.

Now this again is a good number because on an annualized basis we are still continuing the trend. The good part about this growth is that out of the Rs. 2,454 crores that we have grown, closer to 1,290 which is about 50% has come from retail advances. This is a significant change compared to the past; now we have been growing the retail book and it continues to grow so. And of course our focus on mid-corporate advances and the RAM segment, and also some of the large corporate advances that we've been taking advantage of an opportunistic interest rate scenario compared to our treasury investments are continuing, but direct to customer advances, and also making sure that we are establishing new relationships is continuing because of the new setup that we have and the addition to our leadership team in the form of a Head of Corporate business that we have done in the previous quarter.

On aggregate deposits, we have clocked a record magic number of Rs. 1,00,163.92 crores. And this is again, ladies and gentlemen, the highest in the history of the Bank, as against Rs. 98,057.83 crores as of 31st March 2024, reflecting a Q-o-Q growth of a 2.15%. And on a YoY basis we have clocked a growth of 15.18%, which is very much comparable with the market overall across all banks, where we were Rs. 86,959.86 crores as of 30th June, 23. The CASA deposit stands at about 30.54% - this has decreased and this is an area where we need improvement. This is a market-wide phenomenon though - not that we are taking cover under that. But having said that, we are proposing a very, very clear strategy on covering this CASA through direct collection of taxes, GST, customs duty. Also we are happy to announce that we have integrated with Khajane-II, which is the government of Karnataka treasury systems where we will soon be a Bank to collect Challan receipts for various government payments. So, this will again have a focus as far as our overall liability accretion is concerned. In addition to that, in the last quarter, we have launched a senior citizen product called KBL WISE, which has top-up insurance and a lot of other very good features which has actually got a wide publicity and good traction. We believe that we will be able to extend such new features to segment wise retail on the liability side which will cover self-employed, students, etc. along with a couple of other bundled products like we have done with salary savings, and a current account purple product that we have launched in a couple of quarters before. So, based on all of this we believe that we will be in a better position as far as our CASA is concerned.

I go to the next point which is related to NII or the Net Interest Income:

We clocked in an NII of Rs. 903.36 crores in Q1 FY25 which has increased from Rs. 834.03 crores as of March 24, and this is significant. There are a couple of one-off interest related to income tax refund that we have, etc. which is included in that. But having said that, there is a very good traction as far as our NII is concerned.

On the NIM, we have increased it by almost 22 bps from the previous quarter, where we are at 3.54% for Q1FY25 compared to 3.32%. So, this is a healthy NIM increase which has come in. Of course, during the same quarter of last year we were even higher. But this is again the compression on account of market wide phenomenon which is continuing. In any case, our guidance to the market, which we have always said, is that we would be between 3.5% to 3.7% and we stay within the guidance as far as this is concerned.

On the CD ratio, we've been continuously increasing and we stand currently at 75.33% up from 74.45% as of March and 72.46% as of June 23.

Coming to the health of our assets, which is the quality of our asset book:

The stressed assets, our GNPA is more or less at the same steady level. There is no real increase or decrease. It remains stable at 3.54% and 3.53% between this quarter and the previous quarter, but significantly improved compared to the last year, the corresponding quarter where it was 3.68%. So, there is a contraction which is almost like 14 bps on a larger base which I am sure all of you will appreciate that this is directionally going the right way.

On the net NPA:

There has been a slight increase from 1.58% last quarter to 1.66% and this is primarily on account of some recoveries which were slated for Q1 that has got shifted to Q2. And in fact, in the last about two weeks in July, we have collected a significant amount which were otherwise pertaining to the previous quarter. So, on the overall, we are happy with the net NPA collections, and we are seeing a push as far as recovery is concerned in July '24 and thereafter.

Quick breakup in terms of the GNPA and the NNPA numbers, this is something that was requested post the last conference call, and we thought that it is appropriate to also call out a few numbers here. Our opening gross NPA was Rs. 2,578.42 crores. All of the numbers that I am saying are uploaded in our investor PPT, both to the exchanges as well as on our website already. So, just to repeat, our opening gross NPA was Rs. 2,578.42 crores. The additions were Rs. 416 crores and the restructured assets portfolio has performed well, and some slippages have happened from that which are included in this Rs. 416.49 crores. And the reductions which include primarily upgradation, recoveries and the technical write-offs - all of that put together has been about Rs. 326.46 crores. Thereby about 90 crores is the net addition to the overall gross NPA. And the technical write-off position as of June '24, which is provisional of course, is about Rs. 2,900 crores. So, we have been recovering both from our regular book as well as the technical write-off book. And this has resulted in our gross slippages, which has really dropped down to 0.59% in June '24, compared to the previous quarter of 0.79% and about 0.5% as of the last year corresponding quarter. Recoveries during the quarter, excluding upgraded accounts, has been at Rs. 133.12 crores for Q1 '25, while it was about Rs. 197.3 crores for the Q4 FY24 and Q1 FY 24 was Rs. 167.88 crores. So, here again, as I said, while the collection was Rs. 133 crores, there has been a substantial recovery which was otherwise slated for Q1 which has happened in the first two weeks of July which will get reflected in this quarter

On the standard restructured advances without related accounts:

The Bank has done well, where the number has come down to Rs. 1,160.94 crores compared to the previous Rs. 1,338.78 crores as of 31st March, 24th of the previous quarter and Rs. 2,060 crores as of the last year corresponding quarter. Now this is a very healthy sign where we have brought it down substantially from our original position as of last year. When I say original position, which was during COVID and post-COVID, the total restructured book was over Rs. 4,500 crores, which has come down to Rs. 1,160 crores right now. So, this has also been recorded in our investor presentation, because one of the key metrics that we measured at the Bank is a gross NPA plus restructured advances as a percentage of our gross advances. From last June 23, which was at 7.7%, again, I repeat, GNPA plus restructured as a percentage of the gross advances at that point of time was 7.7% as of last quarter (March 24) it had come down to 5.7% and now as of June '24, the current quarter, it has come down to 5.4% So, directionally we are doing well, both on our GNPA recoveries and our restructured book, and I believe that we will continue the same kind of trend as we go forward. The PCR, which is the Provision Coverage Ratio, stands at about 77.97% for Q1FY25 when compared to 79.22% of the previous quarter. And this again reflects the fact that we are adequately covered and both the technical write off book and the overall book from a health perspective, we believe that we are quite safe and all right.

There are two other very clear metrics which are affecting NIM, which is cost of funds and cost of deposits. The cost of funds for the Bank was at 5.57% for Q1 FY25 and when compared to the previous quarter it was 5.55%. The primary reason here is that the market was very tight on liquidity, and obviously all the banks were facing this liquidity and also sourcing of deposits issue. Our granular deposits which continue to be our focus is definitely on for the 940 branches that we have. While as of 30th June, we had declared only 927, but we have opened 13 new branches in the last couple of weeks. So, the overall number of branches is 940 as of today. Almost all of them are really kicking off in terms of our retail term deposit and the CASA growth - the liability growth. So, we have a very strong retail branch franchise. We have a strong MSME franchise both in Karnataka and across the country, giving us access to low-cost deposits. CASA bundle offering, which I talked about, which is going to be done through some new product launches in this and a couple of following quarters, will possibly make the Karnataka Bank account that our customers hold with us as a primary account relationship through our digital access, and this would help us in capturing larger flows as far as our liability franchise, including the CASA growth.

I would like to talk about credit costs:

The credit costs has come down relatively and quite a bit to 0.11% for Q1 FY25 compared to overall 0.84% for the four quarters in FY24. On a quarter-on-quarter basis comparison the previous quarter was 0.20% and 0.28% for the corresponding quarter last year. This reduction in credit cost is primarily due to the result of lower slippages in the 1st Quarter, in addition to a 20% Y-on-Y growth as far as our net advances is concerned.

Now, coming to two or three other primary ratios:

One is cost to income:

The Bank clocked a cost to income ratio of 52.76%. This has been a commitment from the management in the past where we said that there will be a spurt and we would come back to sub 50 in about four quarters. We believe that the reduction which has been achieved from the last quarter which was very high at ~60% is due to a one timer that quarter, but otherwise we were hovering around 53% and 53.5% which has come down to 52.76%. And this would come down further in the following quarters because there is substantial rationalization of cost structures and a lot of operational efficiency that we are deriving through centralization. We are setting up a national back office in Mangalore and also cutting down a lot of cost as far as the branches and the franchises are concerned. And this will basically continue as part of the exercise and cost rationalization process by the end of this financial year.

As far as the two metrics for stakeholders is concerned, the ROE, that is Return on Equity, stands at 14.45% for the 1st Quarter, and this is compared to previous quarter number of 13.71%. That quarter we had raised Rs. 1,500 crores capital, which has been the reason for that lower ROE, and over a period of time this is normalizing, and we believe that this with the above increase in reserves and share capital, the ROE would touch 15% approximately very soon. The ROA, which is return on asset stands at 1.38% compared to the previous quarter of 1.19%, so this is a significant jump. Also, if you look through the previous quarters of the previous year also, we were definitely doing well. We are within our target range there, where we have given the guidance of 1.2% to 1.4%, and we believe that we will be able to continue in this range.

Last one is more from a regulatory perspective, which is on the capital adequacy, CRAR ratio, where we stand at 17.64% as of Q1FY25 with tier 1 at 15.94% and tier 2 at 1.70%. Just a quick reminder here that the quarterly profits are not added. So, obviously there is a Rs. 400 crore lying there which will get added only after auditing of account towards the end of the year. And this is very healthy from a overall banking perspective. We were at 18% as of last quarter, and this again is a reflection through our asset growth and the fact that we have been growing the book.

So, ladies and gentlemen, this is the introduction from the management side in terms of the overall numbers. And at this juncture, I would like to hand it over to our host, Siddharth for any questions that our investors may have. Thank you all for the time. Thank you for the participation and we will be happy to take on the questions. Siddharth, over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Darshan Deora from Indvest Group. Please go ahead.

Darshan Deora: My first question was regarding slide number #11 of the investor presentation. If I look at the yield on advances from Q1 FY24 which is 9.95% it has come down in Q4 of last year to 9.74% and then 9.52%. So, as we are focusing more and more on our RAM strategy increasing retail, why is it that the yields on advances is coming down especially given that the interest rate environment has also been more trending upwards rather than downwards.

Srikrishnan H: So, Darshan, the actual reason for this is two things. One is it's not the new advances that we are booking in the Bank. This is more the historical book where repricing has happened because of a lot of competitive bids and quotes that our customers are getting from others including in retail housing loans and so on. Contrary to what we all think in the market, there are players who are definitely offering at much lower levels. And we have historically had a couple of good kind of portfolios at higher levels, but on a very selective basis based on relationship, we have been giving rate of interest concessions also. It is not that all of this is due to rate of interest concessions, but the blended rate based on the new advances plus couple of these ROI concessions that we've been giving, is what has resulted in this. But having said that, we are very conscious about the NIM and we are very conscious about the fact that we want to retain our margins. So, we believe that this is a trend which will continue until the time there is a reversal in the interest rate cycle that is also expected to happen in due course. Original estimates were much earlier this financial year. But at this juncture, because of certain overall macro environmental reasons, it could happen a little later which is a prediction. And we believe that repricing our advances would not happen immediately while repricing of deposit would happen earlier. So, which is when we will be able to take advantage of that in due course.

Darshan Deora: Second question is regarding NIM, our NIM has actually gone up from 3.32 to 3.54 and this is obviously despite the yield on advances coming down. So, what explains this? Is it the capital that we raised last quarter?

Srikrishnan H: So, partly it is that, partly it is also because of certain tax refund, the interest on that which has also happened.

Darshan Deora: Can you quantify that? What was the interest on the tax refund?

Srikrishnan H: About Rs. 80 crores. But it's not significant in the sense that, over the larger piece, larger scenario, there's not something which is very, very significant. But yes, that has also contributed to that.

Darshan Deora: So, I am assuming most of the contribution is actually from the capital gains that’s way?

Srikrishnan H: Mostly, yes. But that's a substantial amount, Rs. 1500 crores, plus also the fact that we retired Rs. 720 crores of our tier 2 which was at 12%.

Darshan Deora: And the last question I had was regarding the credit cost guidance for the year. So, in Q1 we had 0.11%. What do you think will end the year at?

Srikrishnan H: We are still targeting at closer to about overall 1%. This has been our annualized target. But we will be happy if it is a little lesser. But I think we are prepared to digest up to 0.9% to 1%.

Darshan Deora: And just out of curiosity, in terms of ROE, what is our target for ROE or a guidance for ROE for FY25?

Srikrishnan H: We always said that we would be in the 15% to 17% range, but for this aberration that happened due to this capital raise. So I think we are slowly inching back into the 15% and I think we will stay at 15 plus at least for the next one or two quarters.

Moderator: Thank you. The next question is from the line of Piyush Chheda from Serendip**.** Please go ahead.

Piyush Chheda: Just looking at your slippages, almost one-third of the slippages seem to be coming from the restructured books. Close to I think Rs. 140 crores of slippages were from the restructured book. Can you just help us understand when the restructured books slippages would sort of taper off? Is that something that's likely to happen in the next couple of quarters or this is a pain that will continue?

Srikrishnan H: Just to kind of make sure that you know the slippages number is correct, out of the overall additions of Rs. 416.49 crores only about Rs. 81 crores has come from this restructured book. So, that is the first data point. The second is to answer your question, the retail part of it which is the restructured assets in multiple forms, the bulk ones have got addressed mostly barring at least about let's say about 10 to 20 odd larger accounts which are still there across various regions. But the real granular part which is including housing, etc. are being restructured and they are coming out of restructured into standard portfolio and so on. There's a special team that we have deployed which is why this entire overall recovery and all of it is happening. Last point related to the restructured is that as you are aware that 91% of our book is collateral-based. So, even in these restructured assets, I can confirm that all of them are security backed. But you are aware about enforcing the security value and so on. So, this is something that as a separate team, as I said, led by our credit monitoring team from the headquarters and with SPOCS at every region, they are doing this. And we believe that we would continue with the same trend in terms of a downward trend to a reasonable level in the next 2-3 quarters.

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

Prabal: Sir, my first question was on the provision coverage ratio that has come down by 200 basis points sequential. How to read that and what's our outlook on that? How quickly we want to take it to 70%?

Srikrishnan H: So, Prabal, first there is a change which we have implemented which is account level provisioning which has been practiced for the last couple of quarters. So, obviously we have been doing this at a granular basis. The second part is that over a period of time we believe that the acquisition in terms of extra provisioning will happen when we get more comfortable on the profitability side. So, this is a clear balance between PAT and PCR that we are trying to balance and we are making sure that whatever is as the prudential norm, we are doing this which are certified by the statutory auditors. And also fact is that we want to also reflect the growth of the Bank. So, we want to grow profitably, we want to also be healthy, and this is the balance that we will strike as we go forward. We believe that our next target to reach as far as PCR is concerned would be the 80% in the next 2 to 3 quarters.

Prabal: In next 2 to 3 quarters, meaning a 26%, is that the right understanding?

Srikrishnan H: No, I am talking about 77.97% as of this quarter would grow to about let's say two quarters from now, we should hit 80%.

Prabal: The second question was on the GNPA, the gross NPA in the retail ones that has gone up from 2% to 4% on a sequential basis. So, why is that and which specific segments are showing pain for us on the retail side?

Srikrishnan H: You are aware that there is a historical book, Prabal, which is pre-COVID, before 2020, and then thereafter whatever that we have been doing during and after COVID. Then the restructuring happened. And over a period of time when the growth was really not there and the last about a year we've been growing the advances book at closer to 19% or so. So, the historical book is something that we are working on, and obviously most of this, at least 50% or more from the overall NPA, is coming from the historical book and this will continue. And this of course does not include the restructured part. As you know, on restructured we are provided for at least up to about 14%-15% on the overall restructured book. So, what we are trying to do is to make sure that we want to completely clean it up as far as the historical book is concerned and make sure that we are more or less on a clean slate as we go forward. On the retail book, just to answer your question as to what is the total in terms of the breakup between retail, etc., one of the key segments that we do lend to be the contractor segment, which you are aware. And in the last year or so, the last quarter of the previous year, we did have a lot of collections and a lot of SMA-2 went back to SMA-1 and 0 and so on. But because of the fact that there was a kind of period which is due to the code of conduct partly, I mean mainly due to the elections etc., the payments were not coming through from the government department, which will happen in this quarter and the next quarter and we believe that we would come back to regular normalcy on that segment. The retail book per se has been doing well. We can't see much as far as the GNPA is concerned there. It is more from the mid-market and the agri and which are predominantly from the historical book.

Prabal: And sir when you say that this is the pre-COVID book that is showing pain for us. So, how long should we expect the pain to continue?

Srikrishnan H: The restructured book has as I told you, has come down to about Rs. 1,160 odd crores. Which means that we are in the fag end of that particular cycle. We believe that up to March 25, this is going to continue and every quarter we will see some substantial reductions but there will be a final number which we will arrive at. Whatever that number would be Prabal, we will wait and see. And whereby at some point of time as a Bank we need to make sure that this is completely regularized. So, this is a trend but it's a very significant movement that we have achieved. Overall, many other banks did not go through this route of declaring a high amount. Karnataka Bank took a conservative stand in '22-23 when this was done where a Rs. 4500 crore was restructured and classified. From there, we have come down to a very healthy number. At this stage as a percentage of our gross advances, this number is actually not very significant. And in any case, as I said, 15% has been provided for. And the slippages from this restructured portfolio is on a downward trend.

Prabal: Sir, during the quarter, the retail loan book saw a decline on a Q-on-Q basis. So, by when should we expect this book to start in the long run the MSME segment?

Srikrishnan H: We have actually, on the contrary, added. Just to give you an idea, we have added a total of Rs. 2,453 crores that we had grown on the advances book. Almost 50% came from the retail side, approximately Rs. 1,290 crores.

Prabal: But within this if I exclude agriculture, then the core retail book has come down.

Srikrishnan H: Let me give you the breakup on that separately between retail agri because right now the classification that we have done is basically on retail large cap and mid cap. So, that is how we have done, but we will be able to publish that.

Prabal: And any out as to when can the retail and MSME business where we are still in the phase of developing their infrastructure, when can they start contributing to growth?

Srikrishnan H: On agri, we have already done that, which is by deploying closer to about 100 plus agricultural field officers (AFOs) into the market. We recruited some and we had to pull out many who were in regular banking in multiple regions. So, we have focused on, got them all to the agri-focused regions already. So, the agri part of it, which is to create a structure and outreach programs etc. have already started and it is yielding results also. MSME, as you're aware, I think it's already there in the public domain as part of the presentation, that we have recruited our Head of retail and MSME business, and he is due to join in about 1 to 2 weeks from now. Right now it is being managed internally by our existing leaders. We made some structural changes where the erstwhile GM Credit Marketing has taken up the position as a Chief Compliance Officer. And so this is basically an interim arrangement and we will have the leadership change happening by end of this month. And as soon as he comes, I am sure that you know, he will devise many programs and outreach programs. Mid Corporate Head has already come in and he's more or less completing one quarter. And here again, there will be a churn in the overall book compared to the earlier where the large corporate opportunistic will degrow and it will be replaced by direct to customer lending on which will have a kicker as far as yield is concerned.

Prabal: And sir two data keeping questions, what were the net advances during quarter and outstanding assets?

Srikrishnan H: Net advances during the quarter increase you are talking about?

Prabal: No, the absolute number on the balance sheet sir.

Srikrishnan H: What is your second question, net advances and then the second was?

Prabal: Asset number.

Srikrishnan H: Rs.1,15,770 crores is the total assets. Rs. 73,977 crores is the net advances.

Prabal: Sir, and from the previous quarters, since we have improved the quantum of our disclosures, I would just request if we can also add balance sheet into it, which sort of gives more perspective as to how ratios are.

Srikrishnan H: Surely, we will include that. Actually, we have taken a lot of feedback from all of you, and we have included everything, whatever that we've heard so far. We will take this on record.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: First of all thank you for presenting a much improved version of the presentation. So, really heartening to see these positive changes. Sir when it comes to your growth rate, now you have also given this vision of reaching Rs. 1 lakh crore by FY26. So, I mean now what we are witnessing slightly is that the retail engine is still slightly probably not growing as fast as we had envisaged and at the same time there are pressures on the NIM. So, how do we make sure that we reach to our target and what are some of the constraints that you see for us to reach there?

Srikrishnan H: So, fundamentally Sarvesh, yes, we had this aspiration. And when we started the journey, couple of us who came into the Bank, including our Executive Director, Sekhar Rao, we sat together and said that we should first of all outline our aspirations. So, the aspiration still remains to be that Rs. 1 lakh crore gross advances by March 26, and we stay committed to that. Second is that the composition of this, we always said that we would have 50% from the RAM and then the balance would be from corporate advances, which would also be a churn because the larger corporate advances which are more opportunistic also would be replaced by direct to customer corporate advances. So, both these efforts are currently on. Structurally what we have done is that we have divided this into outreach programs. Basically, on the retail asset side, we have appointed corporate DSAs. We have also deployed a DST community across the country. And this is a pretty large number which is there, and they are sourcing business.

We have also embarked on a credit transformation program which is basically to rationalize the processes, the turnaround times, and also any policy changes related to benchmarking. The 1st

Quarter of that credit transformation program in terms of study, collation of data related to all of these other products offered by banks etc. has been done. So, we are tweaking a lot both on the products as well as on the process side.

The third is that we are in the process of setting up retail asset center in a couple of locations whereby this will be one kind of umbrella shop where right from sales, which is the DST sourcing, application, lodging, and review scrutiny would be done in record time, so that it works more like a factory, and this is what we are trying to set up from a retail asset perspective. On the MSME and the mid-corporate, we are having a kind of a relationship and a coverage team which will be deployed in multiple areas. The teams are working with our newly joined HR Head for making sure that this structure is there as far as the locational coverage is concerned to manage these businesses. This is a significant change from the past where we had one branch manager who was managing all types of assets and where now the branch Head will continue to do what he was doing, but we got the sales team and the coverage team, which will be superimposed on a branch structure. And as you are aware, in the last quarter, we have enhanced the cluster head concept. Instead of breaking the branches into regions, we have introduced the cluster head concept. Now all the branches work under 51 clusters, as far as the country is concerned. So, overall, what we are doing is that we are making this entire organization more effective, more focused on this. And based on this, we believe that our goal of this Rs. 1 lakh crore through the segments that we are talking about would be very clearly achieved.

Sarvesh Gupta: Understood sir. And sir, on the credit cost side, if my understanding is right, you are saying that the standard restructured book will more or less run down by the end of this year. And so your slippages from that particular book will further reduce, I mean because 20%-25% is anyways coming from that book even now. So, that bucket would also go away in a year's time. Is that the right understanding sir?

Srikrishnan H: Sarvesh I want to correct that understanding a little bit. I did not say that our restructured book will be completely eliminated or zeroed by end of the year. All that I said is that we will reach a far more comfortable position from the Rs. 1,160 crores to a lesser number. So, the restructured book is here to stay but it will be very controlled and reduced. Because of that, obviously the slippages will be much lesser and lesser as we go forward because the constitution of the restructured book is something that we have already published in our investor presentation, where segment-wise it is there. And plus, as I mentioned earlier in the call, this is all fully covered with collateral. So, we will be definitely making some very hard calls as far as the recovery or upgradation and standardization is concerned. So, just to kind of conclude on that point, I hope that communication is very clear on the restructured book. It will come down. Yes you are right about lesser and lesser contribution to the NPA because of that, and that is a very valid point that you raised, and I guess that explains your query also.

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

Sushil Choksey: Congratulations to team Karnataka for excellent result. Sir, my first question is referring to the previous question which was asked on an aspirational goal, your retained profit and the equity raise substantially supports the credit growth. And I am sure in today's market, credit is not an issue. Coming to the deposits and CASA, where are we? And based on aspiration, have we reached 50%, 70% or we still lacking?

Srikrishnan H: Sushilji, good evening. Thank you for your compliments and also your commentary on our asset book and capital raise. Yes, it is contributing definitely and giving us a lot of headroom as far as our gross advances growth is concerned. On the deposit side, I would say that one, in addition to the branch-led liability acquisition, we have embarked on a sales team-led acquisition as far as our liability franchise is concerned. Today we have deployed over 300 CASA sales officers across various regions, plus feet on street for sourcing and bringing them. As you are aware, unlike an asset where the closure can happen with the retail DSA, DSC, in this case the Bank staff have to go and so they only kind of source, but the closure happens with the Bank staff. So, that is why the 300 odd CASA sales officers who are all of the roles of the Bank are deployed for this specific purpose. The second is that we will double this number as we go forward as we are seeing some good traction in terms of number of account that are being opened. Plus the third thing is that most of our new product development which has been done in the last 2 quarters are all liability based in the sense that if you look at our KBL WISE which is our senior citizen product, Current Account Purple, which is our traders and small businesses product, corporate salary savings product, and what we are planning to do for students with an educational loan combined with liability account, and self-employed professional plus family account concept that we are bringing in etc. If you look through these, all of our efforts are going to be focused on liability acquisition. The second part is that our branches are kicking in, in terms of the existing customer base. So, ETB increase in terms of the wallet share has happened. And in fact, there is a very healthy mix which is happening, which is essentially from our ETB account acquisition in terms of retail term deposit etc. And compared to the market where the overall market and other banks have lost CASA, we are not really losing that much. We are really kind of maintaining, and we believe that the products and the tax and other liability franchise improvements will result in our overall CASA growth as we go forward. Last point Mr. Sushil is that government business, we have been increasing this as I mentioned in the call earlier, and we believe that will also result in a lot of float both the government tax, custom duty, GST collections plus the government business to the integration with Karnataka government and a few other states that we are in.

Sushil Choksey: Well, my next question pertains to treasury outlook and how are we balancing on monetizing treasury because the GSEC yields are likely to trade between 7.05 or 7.00 to 6.75 by the later part of the year. How will we balance between treasury and credit both by utilizing the surplus profits and the pool available out of it?

Srikrishnan H: So, Sushil ji, there are two parts to this treasury. As you are aware, the Reserve Bank of India's circular on investments which is like transferring all of our holdings into AFS reserve. So, this investment what is being done by treasury, as you are aware, even if they make money until the security is sold, we cannot take them into profit. So, we have actually created this AFS reserve, which is the opening for the revenue reserve. So, obviously, while Treasury will make profit on the AFS due to MTM, but that doesn't enter P&L. That's one part.

The second part is that you're right about Treasury yields more or less tapering at the range that you had mentioned. But the fact of the matter is that we are good on liquidity, because as a Bank we are still surplus on liquidity, which is why our CD ratio is still at 75.33%. Plus our treasury also has some surplus liquidity, which they are lending to the market. So, we believe that there is adequate headroom, both on account of this CD ratio, which we can clearly go up to 80%, plus a good substantial number from our treasury, which can be deployed into corporate assets, which will yield at least a kicker of minimum if not 100 bps, at least 70 to 90 bps will be the increase as far as earnings are concerned. So, we believe that we are on a right track in terms of churning our entire portfolio on the advances side and making very clear efficient moves as far as our treasury funding and liquidity management is concerned.

Sushil Choksey: What is your target on technically written-off accounts, loan which are written off on recovery sides?

Srikrishnan H: Currently out of our total book, the book which is 2,668.45 crores are our gross NPA and technical write-off book is about Rs. 2,900 crores. Now, normally we recover about Rs. 300 crores in a year and we believe that we are on the right track as far as that number is concerned. And actually we can stretch it also to a higher number as we go forward. So, we believe that if you look through this year, last year we had Income from Written off Account – approx. Rs. 280 crores or so, and we believe that we can close out the year hopefully on the technical write off recovery itself by about Rs. 400 crores. So, these are various kind of measures that we are doing primarily with the existing book, existing opportunity, and also the new opportunity that we are embarking on as far as our new to Bank customers of Karnataka Bank is concerned because the signups for new accounts by the day is increasing.

Sushil Choksey: And in your aspiration, cross sell was a big target. Where are we currently?

Srikrishnan H: So, currently, the products are just coming in. As you're aware, the product team got set up only about 2 quarters ago. There are lots of changes that are being done on the technology infrastructure and the functional side of the technology. So, between our digital product and technology teams, they are really collaborating well, and the agile method that they are using for rollout of products etc., we believe that we will be able to add more features very quickly in short time, and make sure that our entire product offering the bouquet is very attractive to the customers to attract this and then we will see the cross-sell happening. Currently we are still doing the traditional way of third party products through insurance. We are picking up steam as well as we have seen enough increase as far as our third party income is concerned on distribution of life and non-life products and third party products from the broking and Demat and 3-in-1 product. So, all of those are happening. But we will soon launch a wealth management platform which will basically provide for a one stop shop including advisory by location, whereby we will have wealth advisory both platform and practicing professionals to increase the product as well as the cross-sell opportunities for our existing customers.

Sushil Choksey: To be future ready, do we expect that we increase our provision coverage ratio when the profits supporting the Bank on a very good trajectory?

Srikrishnan H: Yes, we will be doing that. That's what I think one of the earlier callers had asked the same question. And we believe that by the end of the year, we should go back to the 80s.

Sushil Choksey: Do you estimate that your co-lending portfolio would result with many partnerships, a better yield towards in advances?

Srikrishnan H: It is already happening, but the amounts are right now very small. We have four partnerships which are currently functional and one more which will be launching this quarter itself. These five are in various, let's say verticals. Some are covering SME, some are covering personal loans, and some are covering developmental kind of loans which are more SHG and JLG and so on. So, what we are trying to do is testing both the system as well as the processes and behavior of the loan until the seasoning happens. Currently the overall exposure is couple of hundred crores. I don't think that we would be in a position to say that whether they are yielding more. Yes, of course rates are better but it doesn't have a great impact on the overall number because couple of hundred crores on the overall portfolio is very insignificant right now. But yes, on a very calibrated basis, we will increase the co-lending portfolio in due course.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Firstly, congratulations on such a great performance. A lot of my questions have already been answered. So, just wanted to ask a bit on the deposit side. Are we facing some issues in the market? Is the competition heating up? Will it impact our cost of funds for a longer duration than what we expect?

Srikrishnan H: Thank you so much for asking this question. So, this is a market-wide phenomenon. I think every Bank from the quarter starting October last year, March quarter, and now also has been facing this. So, this is not unusual for any Bank. Every Bank is facing this because as you're aware. Even the RBI Governor talked about it to say that there's a flight of deposits from the banking system into the mutual fund systems. Which is the fact of the matter. But what we do have is that our branch and the relationship that we have are very unique, considering the fact that many of our customers are actually banking with us for generations. So, two generations, three generations. So, there are a lot of loyalty factor as far as this Bank is concerned on the overall relationship value. Second is that in the past, we did not have all the products to gain a primary position with our customer base and which we are slowly inching to do because now we are not just staying competitive on the product side, we are actually exceeding in terms of the features and benchmarking with others in the competition. Third is that we are not in the high cost deposit or that kind of competition because there are players in the market who are quoting rates which are unviable and we are not in that market. Also, we are being extra careful as far as our overall number is concerned as far as our rates of interest is concerned on short or medium term deposit. So, given that fact, it's a balancing act between liquidity, pricing, as well as long-term stability, stickiness. So, we are focusing more on long-term stability and stickiness compared to a short-term cost of deposits game that some banks are playing. I don't want to name who. So, essentially, we are taking a very prudent approach. We believe that in due course, this would be a winner compared to most of the other opportunities which the market will present. So, the basics here is what we are practicing. We really believe that basics will give us a better play.

Darshil Jhaveri: So, just wanted to ask, what kind of growth in deposits and advances can we expect for FY25?

Srikrishnan H: So, we are growing our advances book about 19%, which will continue for this year. And deposits we have grown between 13% to 15% and we believe that we will stay in the same trajectory.

Moderator: Thank you. The next question is from the line of Ketan Athavale from Robo Capital. Please go ahead.

Ketan Athavale: I wanted credit cost guidance for FY26 and FY27 and your outlook on other income.

Srikrishnan H: So, thank you for your questions. Two things. The outlook for FY25 on credit costs would be about 0.9 to 100 bps. And that will continue. It is a little premature for us to talk about FY26-27 because the dimension of this entire book, complexion of this book is changing, and which is something that we are making changes. And the impact of this will be felt in the following couple of quarters. And I believe that if we control our slippages and if we believe that our overall accretion growth in deposit happens, then we would be in a better position as far as our credit cost is concerned because credit cost is clearly a function of what I just said related to both the reduction in slippages and the growth in net advances. This is where we are focusing. So, if you believe that we are really working towards the Rs. 1 lakh crore book by FY26, then with reduction in the overall slippages which is showing the right trend right now, we believe that we would come to a little healthy level. The second point that you wanted to know was about assets. I think I answered that already, that our overall book is going to be about lakh growth and deposit growth would have to be supplementing that because if we have to give advances, then liquidity has to come from deposit because we are not in the market to borrow from the market and lend to customers. So, obviously we have maintained a very stable book for the last hundred years. We will continue to do so for the next century also.

Ketan Athavale: Just if you can give you an outlook on other income as well?

Srikrishnan H: Other income - that was your other question. So, other income constitutes commission, credit processing fee, income from services like ATM, debit card, locker, and so on and so forth. Recovery from technical write-off is also part of the overall other income. Our other income currently is about Rs. 275 crores for this quarter. We believe that there is a good potential to grow because there are 2-3 areas which are more liquidity based and also a couple of products which will be more on the Forex side, because a couple of our MSME or SME customers do not avail of foreign exchange or any other trade transactions with that. So, we are going to increase traction related to offering more products for our corporate, midmarket, and SME customers and

MSME customers. And the usage on digital transactions, usage on ATM and debit card transactions, usage on lockers, rental recoveries etc. are going up. We believe that over a period of time, this other income, which is currently around Rs. 300 odd crores would grow. Having said that, there was a very significant part of this other income, which was from treasury which as I mentioned in the earlier part of this call, Reserve Bank of India has come out with a guideline where we have to keep it as part of AFS and a revenue reserve and that would not come into the other income. This would be the case with every Bank. It's not only that Karnataka Bank is only affected or impacted due to this. This is a prudent accounting policy change recommended by Reserve Bank, which we have implemented. So, I have already mentioned that as part of the overall call that if we had included that our other income would have been higher by Rs. 40 crore and Profit Before Tax (PBT) would have been higher by Rs. 33 crores. But that is not the case. So, even without treasury, we believe that the other avenues I told you which is trade, Forex, debit card, locker, and digital products, third party products, which will be distribution products, all of that will contribute. So, we believe that we are on a healthy trend as far as that is concerned.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Srikrishnan H sir, for closing comments.

Srikrishnan H: Siddharth, thank you for hosting this on behalf of Karnataka Bank and on behalf of the Bank management who is sitting with me and those who are on the call outside, we would like to thank the investors for their support, the customers for their loyalty and patience with Karnataka Bank. And more importantly in terms of guidance, whatever that we are committing, we will continue to deliver. We are on the right track. Trajectory is looking good. Overall, I think the fact that we raised capital last year and making sure that all of the execution of the mission and the strategies that we have developed for ourselves are coming into fruition. And we believe that we will be able to contribute significantly to our stakeholders as we go forward. Once again, thank you all for participating today.

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

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