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

Madam/Dear Sir,

Sub: Transcript of Q2/H1FY25 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 October 23, 2024, on the unaudited Standalone & Consolidated financial results of the Bank for the quarter and half year ended September 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 K
Company Secretary &
Compliance Officer



Edited Transcript of
“Karnataka Bank Limited
Q2 FY '25 Earnings Conference Call”
held on October 23, 2024



**MANAGEMENT: MR. SRIKRISHNAN H – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – KARNATAKA BANK
LIMITED
MR. SEKHAR RAO – EXECUTIVE DIRECTOR –
KARNATAKA BANK LIMITED
MR. ABHISHEK SANKAR BAGCHI – CHIEF FINANCIAL
OFFICER – KARNATAKA BANK LIMITED
MR. VINAYA BHAT – CHIEF COMPLIANCE OFFICER –
KARNATAKA BANK LIMITED
MR. RAGHURAM H S – CHIEF RISK OFFICER –
KARNATAKA BANK LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Q2 H1 FY '25 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 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, Adell, and good evening, everyone. Warm welcome to our Q2 FY '25 Earnings Call. On behalf of Karnataka Bank, I'm Srikrishnan, MD and CEO. I have with me here Mr. Sekhar Rao, Executive Director; Mr. Abhishek Sankar Bagchi, who is our CFO; Mr. Vinaya Bhat P J, who is our Chief Compliance Officer; and Mr. Raghuram H S, who is our Chief Risk Officer. So in addition to that, we have a couple of other executives who are from the Investor Relationship team. Greetings for the festive season and wish you all and your families a very happy Diwali in advance. The bank has ensured that we are fully prepared for to capitalize on the opportunities that are coming up due to the festive season during the second half of this year.

As I mentioned during the previous earnings call, the bank has been undergoing major restructuring and transformation process. So during the quarter, a couple of updates. We have brought in a new leadership for Head of Retail, MSME, SME, Agri assets, that is Mr. Sreenivas Mylavarapu, a Head of Liabilities plus Third-Party Sales to focus on the business growth, that is Mr. Venkateswarlu Mallineni. Both of them come with very rich experience in banking as well as sales experience. And besides this, we also brought in a new Head of Retail Collection, Mr. Ramasubramanian B, to ensure that maintenance of our portfolio health on the retail side. With these additions, I wish to also confirm that all the senior restructuring and the leadership is now in place.

We have the Karnataka Bank veteran leaders who are also participating very actively and whole-hearted in our transformation journey. The major transformation processes that are underway are credit transformation, a national back-office, where we have made substantial progress by centralizing clearing, and we will also centralize treasury operations in a couple of weeks.

And we have created the sales and the product organization, both for retail assets, mid-corporate and corporate business and also the retail deposits and CASA accretion, and we do have them attached to various locations. We are, as you are aware, in 22 states and 2 union territories, and more of the regions are covered.

So all these sections are rapidly progressing, and we really hope to see some benefits in the same during the upcoming quarters. To support this growth, we also have enhanced our tech infra and operational capability. All the enhancements are in place, and we have done some major enhancements both in terms of our storage, processing, and also a lot of other functional features in our overall tech stack.

We have seen some improvements and a significant improvement in the book quality, which will improve even further as we go into the future quarters. During this Q2, we have taken a conscious decision to focus on portfolio quality over growth. And during Q2 FY25, we will continue to maintain that focus on critical parameters.

Basically, we define our Bank's performance on growth in advances, deposits, improvement in quality of advances book, profitability and NIM, and favourable ROE and ROA. These are the critical metrics that we will be working towards. In the past few quarters, we have been focusing on growth, but we took a pause during this quarter to focus on quality as well as profitable growth.

And we believe that the numbers are speaking for itself based on this strategy, which is a short term, but we will accelerate the rest of the other

defined parameters and metrics as we go forward because all the engines, which is related to the retail business, the corporate business and so on, have all started kicking in. I'll be talking about it as part of the commentary.

Overall, aggregate business, the business turnover of the bank stood at INR175,284 crores, up 12% on a year-on-year basis against INR156,468 crores in September '23, the corresponding quarter last year. On the profit after tax, for Q2 FY '25, the current quarter, it was INR336.07 crores as against INR330.26 crores in the corresponding quarter previous year. The PAT for the half year stood at INR736.4 crores versus INR700.96 crores as part of H1 of the last year, an increase of about 5%. The same was INR400.33 crores –for the previous quarter that had a onetime IT refund and interest refund of INR81 crores, so which effectively means that from INR320-odd crores, we have moved to about INR336 crores this quarter on a quarter-on-quarter basis.

Due to the accounting policy changes, I think, we called it out the last time also, on investments Available for Sale, the AFS portfolio, we have classified effective April 1st, there is a credit line in our AFS reserve and the opening revenue reserve to the extent of about INR106 crores and also about INR24 crores, respectively. Had the Bank continued the earlier accounting policy, the income on investment and the other income, which would have been higher, the profit before tax would have been higher by about approximately INR71 crores.

But that is something that is possible to really recognize only if there is a sale in the securities that we are holding in AFS book, and this is something, which is common across all the banks due to the revised RBI regulation. But this, on a comparative basis, previous year and corresponding quarter, there is a difference, and which is why I'm also stating this number.

As far as the gross advances book, the total of the advances remained at INR75,316 crores as of September '24, and this reflects a year-on-year

growth of about 12.5%. The industry growth for the same corresponding year-on-year was about 13%, so we are very much in the same trajectory as far as the industry is concerned on the gross advances.

Our overall strategy was to grow retail, agri and mid-market RAM, and where the growth has been led by retail housing and gold loan for us, with a net book accretion of about INR3,691 crores on a year-on-year basis in this segment.

The bank has also committed earlier that we will reduce our exposure to large mid-corporates that were opportunistic to deploy for short-term better yields than our treasury deployment. The bank also took a conscious vision in this quarter, not to go for this low-yield bulk PSU advances, which would have locked us up for a couple of years at a very low rate. And because of the interest rate and outlook, which has been there in the next few quarters, we didn't want to get committed, which is also one of the reasons that the advances book has not grown.

But in terms of quality and the churn, this is something that we have ensured during this quarter also. With our new heads of businesses for Retail and Corporate that I had mentioned earlier and their respective regional structures are also in place now. The focus on acquisitions from these segments will increase going forward. On a year-on-year basis, retail advances have grown by 12.2%, and this is something which is very good from our perspective because the yield is also something going forward will be beneficial for us.

So let me move to the aggregate deposits. The deposit number stands at INR99,967.99 crores, reflecting a year-on-year growth of 11.66% over September '23. And the industry growth, again here, among scheduled commercial banks is about 12%. So we are very much in line with industry growth. Our CASA deposits stood at about 30.82%, up 28 bps from the 30.54% in June '24, but lower than the last year. And I don't have to really elaborate much on the industry phenomenon, which is happening on CASA or liabilities. The CASA, as an overall deposit of

scheduled commercial bank, has declined about 43.66% in March '22 to 39% in March '24.

So even during the Q4 of the last year, as per published numbers, the CASA dipped by about 271 bps, that's 2.71%, and this trend has also continued in September. Liquidity reasons and other banks offering high lucrative rates for 1-year short term, the deposits that were reflecting a lower number as, again, confirmed by the Reserve Bank of India statistics and various news that have been coming out on this subject.

There is a flight that is moving away from CASA into term deposits and into other instruments outside of banking system as well. But we believe that our bank is well positioned for Q3 because of the agricultural harvest season and the expectation of RBI easing up on rates, and we expect that the CASA will continue as far as our growth is concerned.

During the quarter, we shifted the growth to the CASA book and retail deposits to replace lower-yielding bulk deposits. As a policy, we do not bid for much of this higher bulk deposits at very, very low rates, and the market was not really rational at some point of time we felt because it just did not suit our book. So which is why probably you're not seeing growth in the book, but in terms of quality, we have improved because there is a substantial reduction in the overall bulk deposit as a percentage.

So I wish to confirm to you that 92% of our liability book comprises of retail liabilities, and only about 8% is in the form of bulk deposits and these are also our card rates or favourable rates. We have not been really chasing deposits based on very high rates as far as the market is concerned.

Going forward, we have a set of new products that are being launched in this quarter and the next quarter. I'll be calling out because most of these are focused on liabilities and increase in deposits and also in retail loans. A couple of examples. We are launching KBL Genius, which is a

student savings account, KBL Peak, which is an education loan, a premium savings account, a merchant payment app, which will be QR code-based, and also enhancing our Mobile Plus and Mobile One applications for preapproved personal loans and also launching for specific medical equipment loans and a wealth management advisory platform, which will be integrated with our app in terms of the access and functional features.

In the last quarter of this year, we would be launching a supply chain financing program; exclusive women savings account; flexi recurring deposit, RD scheme; and also a family banking program, whereby all of the family members will be part of one group account, and we will be offering basically benefits across the family members as one unit. And last but not the least, we are also working towards developing a MSME super app, which will basically capture the life cycle of our MSME customers right from the Udyam registration and renewals and GST and their entire working capital cycle as well as the payment of taxes and so on.

So basically, what we are trying to do is to provide digital access to this community, which is huge for our Bank and will definitely act as a center of growth for the Bank in terms of the overall asset and also the promoters business from their personal relationships.

The NII for H1 FY '25 was INR1,736.92 crores. It was up 6.1% on a year-on-year in comparison. The NIM, we have clocked at 3.38% for the half year. There has been a dip in Q2. But overall, we still have done better and we are still within the guidance for 3.4% to 3.6%, and we are about 3.38%. There was a minor reduction, but we will definitely make it up as we increase our retail advances acquisition and also direct-to-customer acquisition on the corporate book. The loan yield with the strategies being under control, NPA is coming under control. The Bank is definitely increasing the focus on loan yields and improve overall profitability.

Bulk opportunistic advances will be replaced by direct-to-corporate advances and retail advances and we will still show a growth in the book, but also a churn in the book, which will be more swinging towards the higher yielding advances. This is something, which we believe that the necessary infrastructure, the people, the technology, products and benchmarking in terms of turnaround times have all been done and we are ready to go on this. Likewise, a combination of these various products between Q2 and Q3 into high-yielding segments, such as mortgage, vehicle loans and education loans, etc. We definitely expect that the overall yield will improve progressively over the next quarters.

Our CD ratio is still at 75.34%, continuously improving every quarter, but we still have a headroom there and we believe that our ambition to grow the overall advances book with our capital and our CD ratio and our deposit acquisition engine, which will definitely show much better results as we go forward, we believe that we still have a lot of headroom here. On the standard assets, this is one area where we'll be very proud this quarter because the gross NPA significantly improved from 3.54% to 3.21%.

And this is something that we had committed in the last few quarters to say that we will come closer to 3%. And I think we are well on track as far as this is concerned. Just for reference, the same was 3.47% in September 23. So this again reflects that over the last 1 year, we've been moving very well.

On the net NPA similarly, there is a significant improvement to 1.46%, down 20 bps from 1.66% as of the last quarter and about 1.36% as of last year, September '23. So this again reflects and well on target for our commitment that we will move this closer to the 1% range in the following quarters. And I believe that with our significant recovery and reduction, not much of additions into our overall NPA book, we believe that we are on the right track.

This has been achieved because the gross slippages has come down drastically, and we are at 0.33% in Q2 as against 0.59% in Q1 and as against 0.52% in Q2 of last year. For the 6 months ended September '24, the half year H1, the capex ratio stands at 0.94% as against 1.03% in 6 months. Here again, this has been fully through recoveries for the quarter.

Excluding the upgraded accounts, we have had a recovery of about INR148.01 crores versus INR133.12 crores in Q1 and as against INR117.82 crores in Q2. There is also some more good news on the standard restructured advances. Without related accounts, the restructured book has come down to INR1,051.86 crores compared to INR1,160.94 crores as of 30th June and as against INR1,338.78 crores as of 31st March, '24.

So, the significant metric that we actually measure is a combination and this is published in our investor PPT also, where we normally combine the gross NPA plus restructured book as a percentage of our gross advances. And I'm actually happy to report that as of September '24, our percentage has come down to 4.89% as against 5.39% in the previous quarter and as against 6.78% in the previous year the same quarter.

So as a result of this, our PCR, which is including technical write-off, has crossed 80%, and as against 78% in June, and it was a little higher last year, but, of course, post that we have had a lot of events that happened, including the expiry of the COVID moratorium period, etc. So, the entire restructured book has now completed its term as far as the COVID 1 and COVID 2 regulations are concerned.

Our LCR, as all of you are aware, Reserve Bank of India, based on a study that they had done across all banks, and because of certain, I would say, inconsistencies that they had observed among many banks, they have come out with a revised draft guideline, which actually is to be implemented only from April of next year.

But as a conservative mechanism, we, at Karnataka Bank, have tested the LCR based on the revised guidelines. So even after the revised guidelines as of September 30th, we stand at 143.93% on the LCR, which is very comfortable and as against the statutory target of 100%. As far as the cost of funds is concerned, despite the market volatility, we have remained stable at 5.58%, and it was the same number almost for the Q1. And cost of funds for the entire half year was about 5.58%. And comparing to the half year last year, it was 5.29%. So overall, because of our strategy not to chase high-cost deposits, we have been extremely guarded on that, and we believe that it remained stable.

There is one other good part, which we need to report, which is credit cost. Our credit cost for the Q2 was at 0.09%, which is actually the lowest that we have had so far compared to 0.11% in the previous quarter and as against 0.17% in the quarter 2 of last year. The total credit cost for the half year stood at 0.2%. That's like 0.11% plus the 0.09% that I talked about. This continued reduction was a result of significant lower slippages, and we believe that the same trend will continue as we go forward.

One of the areas of concern for us is the cost to income. We have incurred extra as far as elevated onetime costs in technology, some lateral recruitments and also increased provision for superannuation benefits because of the fact that the rates have moved -- the rates have decreased as far as the superannuation benefits of our staff, the actuarial calculations.

Based on all this, there is an increase. But we believe that we will be able to control this through rationalization of costs, through also increase in income and making sure that we are back to the mid-50s and then, of course, reducing it to closer to 50 in the following quarters. Our commitment earlier also was that we will commit to bring it down to about closer to 50% by the end of this year. I think we might take a little 1 or 2 more quarters more.

But all the cost rationalization exercises initiated across the bank to negotiate with all the vendors and rentals, and IT, non-IT expenses and also not consciously going in for some expenses going forward. We believe that we are on the right track as far as our overall earnings is concerned. Because of this, the ROA has come to about 1.13% for Q2 as against 1.19% in March FY 24. Our guidance has been 1.2%. I think that we will get back to the 1.2% to 1.25% in the following quarters, and we have reasons to support this.

The ROE has dipped to 11.63% compared to the earlier quarters. And this, again, is because of the additional equity that we had raised, which all of you are aware. Our CRAR, without the half yearly profit being folded into the results, stands at 17.58%. If we add that it would be more than 18.5%. So we are very comfortable both on Tier 1 and Tier 2 and in comparison to the last quarter, we were at 17.64%, so which is not much of a change at all. And as of last year, of course, it was much lower. And because of the capital raise that we completed between September 2023 to March 2024 we have been quite all right on this front.

So on this note, I would like to end our commentary from our side, and I would request Adell to go ahead and for calls. I would like to also mention that we try to answer all the questions. And incase that there are some questions that we might need some time, we will respond by mail. And I have my Investor Relations team, comprising of Mr. Soham and the E&Y team to get back to you.

So over to you, Adell, for the Q&A.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Agastya Dave from CAO Capital.

Agastya Dave: I must congratulate you for your work on the NPA side. It seems pretty promising. Sir, I have two questions, both of them related to this third slide that you have added in your presentation today. You have mentioned certain corrections in the low-yield bulk deposits, PSU

advances, and also on the high-cost deposit side. So the first question is, can you quantify what was the impact of this entire exercise? Is it over completely? Or will we see impact in the coming quarter as well?

And the second question, again, related to the same statement in the same slide. You've mentioned that we are going through a transitory period, which I understand, sir. Can you put a particular timeline on when do we see improvements incremental improvements happening in the NIMs on the growth side? And when do you see the retail engine firing restfully for you?

Srikrishnan Sarma: Thank you, Mr. Dave. Both are relevant questions. So one is that in the last three to four quarters, we have been growing the book on account of the opportunity that we had because we did have very low CD ratios in the past. And we had excess liquidity that we were deploying into treasury. So as a first step, as a strategy, and this is very tactical, we had moved to clearly line of credits and also some kind of a short-term credit loans to PSUs. And a couple of other large corporates, which were yielding and more or less on EBLR range, EBLR plus something. And this was not long term also.

So this was short-term deployed because our earnings, we had to take care. And that is a process that is getting replaced by one retail growth. So the last quarter, our retail net accretion was about INR1,250 crores. And this quarter also, we have clocked more than INR1,300 crores. Now with our DSA structure in place, corporate DSA structure in place, we would be in a better way where we will be able to increase this run rate. And in the following two quarters, we believe that we will be much higher than the current run rate, so that is one.

The second part is that we have recruited in the last quarter itself, a new Head of Corporate and Wholesale Banking business, where we were not really pitching for relationship-based banking for corporates. And this is something where we have now got a zonal structure, where we are covering all the four regions. And through this national leadership, we

are able to pitch not just for loans, but also some products, which are essentially some liability-based products like payroll processing or something related to non-funded business or Forex and trade finance business.

So this cross-sell penetration, plus the lending side, would have much better yield as far as the bank is concerned because not only the rates are favourable, but also the fact that we get other business to increase our other income. So this is a process whereby we do have a pipeline, which is healthy. And as much as we grow the retail, a similar number would come from the mid-sized corporate and the large corporate business, which is direct to corporate business. So what we are doing is basically the large corporate business, which was at an EBLR plus very minimal higher premium that we used to add for this large PSU advances, etc, we are replacing. And this will be a gradual process, which will take at least the next three to four quarters, but it will start reflecting in from Q3 onwards. That is one.

The second question is that the NIM, would it have an impact? Yes, it will have an impact because if, for a moment, I say that between the retail book and our mid-corporate and large corporate book, direct-to-corporate lending, if you are able to grow the business by about INR4,000 crores to INR5,000 crores every quarter, then that amount would actually fetch on a book size of INR75,000 crores, and you can do the math there, where there will be a yield kicker of at least about 70 to 90 bps. And if that happens, then our overall NIM will have a positive impact.

And this is a strategy that we had articulated in the last quarter and the previous quarter, but it has taken time for us, and we will ensure that we are executing this without any loss in focus. And we believe that in the next about three to four quarters, this will start yielding better results for us with our focus on RAM, our NII will go. But again, I don't have to tell you that this is all a journey, and this journey has something that we have now started in the last about 1.5 years.

We have now got all the senior management, the new and the old, everyone into one unit, and we got them in place. We now have the operations and technology capacity. We now have the processes on turnaround times as well as credit process, evaluations, etc., are done on a very, very rigorous basis with very stricter turnaround, TATs. And last but not the least, there are very clear products and new technologies that we have been putting into place, including CRMs, etc. So all of this will start yielding results, both in the retail as well as in the corporate side of the business.

So I hope I've answered your question, Mr. Dave.

Moderator: Next question is from the line of Yash Dantewadia from Dante Equity.

Yash Dantewadia: Yes, I just have a couple of questions, especially regarding why is the employee cost up INR30 crores quarter-on-quarter; and other expenses, INR20 crores quarter-on-quarter. The employee cost is up quite significantly. Could you explain, is it a one-off?

Srikrishnan Sarma: So there are -- between the last quarter and this quarter, let me explain, and including in March. So in March, again, this is a residual effect, but it will taper off as we go forward. In March, as you are aware, the IBA settlement that happened, where almost like, I would say, 85% of our staff are covered by IBA scales. And whereby the IBA revised the old pay scales to about 17%. And we had arrears, and we had a provision earlier made for 15%, and this was made to 17% in the final settlement. And we had made that also between the December and March quarters, and we have completed the payment in April.

However, in March of this year, which is the year-end, we had to do an actuarial calculation because there will leave encashment, pension. And a couple of other benefits where the changes happened as far as the overall process in terms of the structure due to the IBA settlement. Also, salary increase and also the pension fund. So as a result of all this, we had to make INR162 crores provision on our total employee expenses

as of March. Now thereafter, the superannuation benefits, we need to do a quarter-on-quarter actuarial valuation. And as of June, the actuarial valuation was INR34 crores. But as of September, it is INR57 crores. So the difference is about INR23 crores.

In addition to that, we have also, as you are aware, done some lateral recruitments and which is also the other reason. So there is about INR10 crores or so increase as far as our overall salary wages is concerned. So overall, on the establishment, I would say, that there is an increase of approximately give-or-take about INR30 crores. INR319 crores has become INR349 crores. And we believe that it will stabilize at this level. And if interest rates are favourable as we go forward and not much of volatility, the actuarial valuation, any reversals, etc., will not happen. So that gives you a fair sense of what we are doing as far as our employee costs are concerned.

Yash Dantewadia: And also the other expenses, are we putting in new branches?

Srikrishnan Sarma: Yes, we are doing that. It's not as if we are expanding by the dozen. But yes, over the last 2 quarters, we have added about 10-odd branches including some shifting of branches. And also, we have set up a national back-office in Mangalore. We have also centenary building, which is in Mangalore. So the depreciation and the maintenance, etc., have gone up. But all this will yield results because we've just shifted our national clearing into Mangalore.

We are shifting our treasury back office as the next step, and our treasury BCP from Mumbai into Mangalore. So Mangalore will become the national back-office for other areas also as we go forward. So as of now, also, centralized account opening, what we are doing is that we are decluttering our branches and moving a lot of operational processes from branches into the centralized site, so that the branches can focus on sales and service.

Yash Dantewadia: Right. Also, one more -- last question. Based on the loan book, would you be able to share the unsecured and secured mix? And are you able to -- are you making a change to your guidance? You've, I think, guided for advances growth of close to 18%. So could you revise that? And also the unsecured, secured mix?

Srikrishnan Sarma: The unsecured and secured mix has always been 90% fully collateralized book for us, and that continues. There is no change to that. The balance 10% also has been more to large corporate PSU, etc. So technically, we do not have any unsecured retail exposure per se, other than some co-lending and a couple of other arrangements that we have. But there, the total book has not even crossed about INR200 crores to INR250 crores. So I don't think that anything significant is there as far as our unsecured is concerned.

Yash Dantewadia: So agri is gold-backed? Most of it is what you're saying?

Srikrishnan Sarma: Agri is gold and land-backed, both. We do have both.

Yash Dantewadia: So 90% of your book is secured, right?

Srikrishnan Sarma: Yes. 90% includes the agri book, which is also secured because we either have commodity as an asset collateral or whether it is land from the agriculturists or it is gold, one of the three.

Yash Dantewadia: Right. And the advances, please?

Srikrishnan Sarma: On the advances, what was your question, Yash?

Yash Dantewadia: I'm saying you've guided for 18% gross advances growth. Are you going to revise that downward?

Srikrishnan Sarma: So I think we will grow probably about, in the next 2 quarters, at about 15%, and then grow to the 18% because this is the transitionary phase where we were growing with some bulk advances in the past, but the bulk has come down drastically. And obviously, we are now doing this midsize corporate, where the ticket size is about INR30 crores to INR40

crores, and then large corporate, which is about INR200 crores to INR250 crores, etc., but all supported by other products, and the retail book. So there will be a 50-50 mix, which will continue.

So overall, what it would mean is that we will be, let's say, if the market is growing at about 12%, 13%, we will definitely be ahead of the market by the year-end, despite this more or less flat position as of this quarter. But the earlier quarters and the earlier year, we grew at about 18% to 19%, so we will definitely be ahead of the market, but may not be 18%, 19%, but anywhere, let's say, between 15% to 18%.

Yash Dantewadia: 15% to 18%. And also I just want to understand one last thing from you. On the gross advances front, you said 90% of the book is secured. Just confirming that MSME, that includes your entire book, right? Your total book? You're telling me that 90% of the book is secured assets?

Srikrishnan Sarma: Yes, sir. Other than the ones, which are NBFC lending, which is about 18% of our overall book. So the NBFC book is through corporate guarantees and collaterals from the company's receivables.

Yash Dantewadia: So what rating are these NBFCs? Like what is the rating?

Srikrishnan Sarma: All, AAA, top-notch. And also a couple of them who are AA.

Yash Dantewadia: None of these new fintech companies -- sort of companies, right? Just want to confirm that.

Srikrishnan Sarma: No. We do not have them.

Yash Dantewadia: Perfect. I just come in line. I just want the ROE guidance, but I come in line.

Srikrishnan Sarma: Thank you. Yash.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Firstly, sir, on the cost-to-income part, we are at 58% for this quarter. So taking into account this transition period, which you have articulated, where are we going to settle in terms of the H2? And what's our longer-term outlook on the same?

Srikrishnan Sarma: See, fundamentally, Mr. Kapoor, we have made some investments in technology, and these are elevated costs, which have been done because of the investment. So basically, we have increased our processing capacity. We have increased our storage capacity and so on to cater to growth. So this is an upfront investment that we have done. That is one.

The second is actuarial costs. As I was mentioning to the previous caller, you might have heard that, is an amount of almost like INR21 crores. So based on this, our overall cost structure has increased right now. And of course, the third part, which I also alluded to earlier, about a couple of senior recruitment that we have done. And I wish to confirm that all investment in technology have been done completely. Everything related to lateral leadership hiring is completed.

And also, we believe that we will flatten this curve and we will not grow from here. Our cost to income will come down, moderate itself in the next 2 quarters. And it is not by only the denominator, but also on account of rationalization of costs, which will happen and also making sure that there are vendor renegotiations on rentals or IT, non-IT, all kinds of costs. So all services costs, etc.

And also, we believe that there are a lot of operational efficiencies that we'll be bringing in because of this centralization efforts. And all this is like work in progress so which is where there is a temporary transitionary period where there would be a reversal to the curve, but we'll get back to the curve that we want, both on cost and the revenues in due course.

Saket Kapoor: So sir, this bracket of 52 to 55 would be there for the H2 or we will hover around 58% as for cost-to-income?

Srikrishnan Sarma: For H2, we would come back to about 55 odd.

Saket Kapoor: Okay. Sir, when we compare our numbers, the September quarter last year with the current, we need to take into account this INR71 crores AFS part. So that should be deducted from the operating profit. That is what you articulated in the Slide 6 about?

Srikrishnan Sarma: Yes. Compared to the last year, the profit for the quarter would be higher by INR71 crores, but you are aware that in our mark-to-market it is a comparative number in the previous month where the previous month, MTM gets reversed and then the new MTM comes. So it's a function of the rate. So as we speak to you for this quarter and for our current book that we have, which is the AFS book, if the old policy which was allowed to RBI prior to April where we could show this in P&L was allowed, our profit would have been higher by INR71 crores.

Saket Kapoor: A small point, sir. When you were speaking about this gross advances growing by now lower teens rather than 18%, if you could give us some color on how the economic activities are currently shaping up, since our focus is more towards seeing RAM part, so are we seeing spreads or lower demand from the vertical where we are focusing?

And also on the mid and the large corporate, what is our thought process of increasing the loan book going ahead? I think so now a lot of stress from the corporate part is already out of the system. And every bank is pursuing RAM as their incremental portfolio. So what's the thought process on these two understanding, sir?

Srikrishnan Sarma: So I'll just tell you that we are 100 year old bank and we have relationships that transcends across generations. So, obviously, we have had some relationships with this sector, which is the RAM sector, MSME or even SME sector who have been with us right from the time we started business and now the second and third-generation are banking with us and with the increase in business. So there is a lot of loyalty as far as the bank is concerned. That's one.

The second is that our overall focus, while which is on RAM, it is for selected markets that we are strong in. So take Karnataka. Karnataka itself we have over 575 branches among out of our 931. But actually, we are in every economic center in 22 states. So which means that we have not been able to capture the cash flows and the vendor flows, etc for all these SMEs and MSMEs and corporations, etc which is there we believe that our supply chain program, which we are launching will come in handy.

So we would definitely use the strength, one on technology and our physical network of branches in order to make sure that we actually do this from an overall value chain perspective rather than doing it on a standalone lending or a deposit relationship. The last part is that our overall growth trajectory, I've mentioned to you that we'll be growing our advances book by about 15% to 18%.

But the good part is that a major portion of this will come from retail and from direct-to-corporate advances where the yield will be higher. So as far as the overall economy is concerned, I do not think that there are any major shocks. I think the country is recalibrating itself. The RBI guidance is also quite positive. Unsecured and NBFCs you know the story and we are not in that space. And we believe that we will not have any shocks as far as that is concerned.

So our focus is on retail and direct to corporate and moving away from the large PSU corporates which were not so yielding, but better than treasury deployment which was a short-term strategy. Now we are shifting the gears as far as that is concerned. And it takes time for this churn to be completed, but we are actually in the middle of that churn right now.

Saket Kapoor:

Thank you for the reply. What do you mean by direct to corporate lending? If you could explain, you have also mentioned the slide that 8% to 10% of the overall advances would be replaced by direct to

corporate lending and at a higher yield. So if you could explain the terminology, sir.

Srikrishnan Sarma: So just as an example, I'll tell you we had surplus liquidity in the last year. We have deployed it in the interbank participation certification and we have a total of about INR4,000 crores that was deployed last year. Now that is like where we have bought some paper, but having said that, today, we will be able to grow the same INR4,000 crores by directly lending to the underlying corporate who is part of that paper, rather than having to go to another banks. So do we have stalled that entire INR4,000 crores book and we are not going to grow that book anymore.

But we will now start the growth with lending directly to our own new relationship which has the new labels, new to bank customers on the corporate side and the mid-corporate side. That is what we were talking when we said that. We'll be doing direct to corporate relationships.

Saket Kapoor: Right sir. Thank you and all the best to the team sir and my festive greetings for shubh Deepavali.

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

Prabal: Am I audible?

Management: Yes, Prabal. Good evening.

Prabal: Good evening sir and thank you for the opportunity and also thank you for giving detailed disclosures in the presentation. So my first question was in the GNPL breakup that is there in the presentation, the other component seems to be increasing quarter-after-quarter. What exactly is this other? And what explains the rise?

Srikrishnan Sarma: Prabal. Just a minute please.

Prabal: Meanwhile, should I ask my next question?

Srikrishnan Sarma: Please do that, we'll meanwhile pull the number related to that go on.

Prabal: So we have seen a pretty sharp drop in slippages that was somewhere INR420 crores to INR240 crores. What has driven this? Any particular segment or is it more about our efforts?

Srikrishnan Sarma: Very, very focused effort. We have recovery team which has been deployed into action, a collection team. And also making sure that there is senior management focus. At my level, we meet with the restructure team. We have got SPOC at every region, and we've got other people at every cluster. So as a result, we get on calls on a fortnightly basis as a cadence. So both the restructured book as well as our overall NPA has come down due to this higher recoveries.

And also, the last part is the monitoring, the credit monitoring mechanism that we have stepped up now due to our credit transformation process. So that is something which we believe that is yielding immediate results. Which will probably reflect in the numbers going forward also. So as I said, we focus a lot on quality this quarter because of the market conditions. And we believe that we have really done well there.

Sekar Rao: There is primarily one account. Other is just something that does not fit into any of the standard nomenclature. So, it is one or two accounts that have slipped in this particular category. So, it is not a consistent kind of reflection of how others is performing. So it's one LRD account and one on the pharma kind of sector, so which has contributed to this increase.

Srikrishnan Sarma: Why don't we give you the breakdown on this later, Prabal?

Prabal Gandhi: Sure, sir. Sir, a follow-up question to the second part was, how do you see the slippages going ahead? This quarter, it was INR240 crores. How should we think about that with all these efforts in place?

Srikrishnan Sarma: So, there are two parts to our recovery, which you are aware. One is the recovery from technical write-off. So, the technical write-off recovery this quarter was INR32 crores. Our target was higher. So, there are some

recoveries which are under progress, which basically got shifted from Q2 to Q3.

So, we believe that the technical write-off amount, which is recovery from two accounts, will be much higher than what we have today. And currently it's about INR32 crores for this quarter. And the regular NPA recoveries, we have recovered a total of about INR148 crores this quarter, as I mentioned to you, and which we believe that will continue the same way.

And the reason is that on the restructure, where the slippages are coming down, most of this have actually come back to, I would say, normal standard. And the reason being that the moratorium period, which was allowed expired as you are aware, in July and August. So as a result, most of the engagement that we have had with our customer sets, the standard accounts conversion is happening, which is reflecting in the overall number because there was more than INR110 crores reduction on the restructuring book from INR1,161 to INR1,052-odd. So that is also the other phenomena which is so net slippages (or credit cost) target will be about 0.5% for the entire year.

Prabal Gandhi: 0.5%?

Srikrishnan Sarma: 0.5% is the annualized for the entire year.

Prabal Gandhi: Sir, my third question was on the balance sheet. The other assets seems to be quite large. Is that limiting your ability to increase CD ratio? That others could be the RIDF deposits that you would have kept with NABARD? But is that limiting your ability to increase CD ratio?

Srikrishnan Sarma: We had the RIDF calls, which were all on account of the previous years really because the previous year, we had this subsector somewhere it was not met. The numbers are reducing. The second part is that we have some old RIDF also maturing this next half year to the tune of almost about INR2,000-plus crores. And we believe that with 74% CD ratio, even now we are at 75.34%, but we believe that there is a lot of

headroom. So there is no limiting factor as far as our overall ability to let them grow the book is concerned.

Just to add to what Sekhar is prompting is that as of September 30, we had lent to the market despite this about INR4,000 crores from treasury, including our non-SLR securities. The reason being that, we did not choose to deploy into corporate assets that were low yielding. So we did not want to get committed there. So it's a very conscious call the bank took.

Prabal Gandhi: Got it. And this RIDF of INR2,000 crores, they mature in, by March of 2025, would that be accretive to your margins because your loans will be better than your RIDFs?

Srikrishnan Sarma: So there will be a yield opportunity there also because what we earn on RIDF is much lower as you are aware.

Prabal Gandhi: Thank you so much and all the best.

Moderator: The next question is from the line of Sushil Choksey from Indus Equity Advisors.

Sushil Choksey: Congratulations to Bharat Ka Karnataka Bank on a stable result. I may be sounding a little critical, but can you explain that growth has not happened between Q1 and Q2 in advances maybe because we have withdrawn our facilities to PSU and low-yielding corporate advances? But at the same time, you have deployed in IBPC, Interbank and various things. So those rates are reasonable. So why has the NII dropped by INR70 crores first is that. And secondly, how much of CD we have raised in this quarter? What we have on our books right now?

Srikrishnan Sarma: So Sushil, just to kind of clarify there, the IBPC exposures, the bank had taken not in the previous quarter, it was much ahead like as much as last year. And because last year, we had surplus liquidity in the bank, which we could not find assets and which was deployed. And from then on, as you're aware, IBPCs are for 6 months tenure. So, we have been renewing

that. We are not increasing the overall IBPC for this quarter, which we took up to INR 4,000 crore, and then we are staying at the same level. That is one.

The second part is that the churn that I talked about is that, this quarter, we have not grown, but then there is obviously, you're aware that in the retail book of 36 months tenure, there is a one third which gets repaid every year. So as a result, on a month-on-month basis, there are repayments.

The second is that for gold loan, the tenure is one year. So which means that it gets repaid over 12 months in terms of EMIs or whatever ways. So despite that, the net accretion of our retail book has been about INR1,300 crores for this quarter. So we chosen not to do this because we deployed our excess liquidity into the market through treasury rather than having to get into a corporate asset, which is this PSU, etc. which was all at interest rate of ranging between 6.9 and 6.95, etc. and where we could have got stuck in a market where it is widely expected that the rates will come down.

So, despite the reset option that we have, there will always be a lag. So, which is why we took a conscious call that is one. The second part is that you talked about the CD ratio. The CD ratio part is comfortable for us and even going up to 80 is something that is a possibility because liquidity is not an issue. But it is just that we wanted to be very sure on the assets that we deploy and the positioning that we wanted to take for the next, let's say, foreseeable quarters and half years. So which is why the bank took a conscious call not to kind of grow over profitability or quality. So that is, I think, a quick summary of what we did.

Sushil Choksey:

My question is more pertaining to our operating revenue was INR4,178 crores in '23, INR4,618 crores in '24. The current year run rate is visible that we should be getting somewhere in the vicinity of INR4,600 crores at max. And the second question is, you would have received all payments from large corporates on day one, and the deployment in retail

and others takes time. So the strategy change would have costed the bank a little bit for the quarter, that is the general assumption I should take?

Srikrishnan Sarma: So what happened, is that as you are aware that when there's some uncertainty in the market as far as the interest rate is concerned, then the bank takes a conservative step, and this is exactly what we have done. So yes, you're right that our interest income has come more or less at the same level or probably INR30 crores here or there. And that is because we have remained stable. And our loan yield also we have maintained at the same level. So it is, again, compared to the previous quarter at 9.52, 9.55, so that is something which is the same. And our cost of funds also remains the same.

All that we are saying is that there is a conscious strategy basis this, and our overall income on our expenditure now is stabilizing and we want to make sure that the same thing remains with the growth, that opportunity that we are sitting on in the next two quarters and foreseeably future quarters thereafter, whereby we will be able to increase profitably and also making sure that our deployment is to higher yielding assets, which has been our focus.

So Mr. Giridhar Rajaram, who's our Corporate Business Head, and between Mr. Srinivas who is our Retail Business Head-Assets, they have a pipeline, which definitely is very healthy. And we believe that our numbers will get achieved, but more profitably rather than the 6.9% and 7% loans, that we were deploying in the past.

Sushil Choksey: My next question is the transformation and aspiration with Karnataka Bank has showcased the world in the last 12 to 24 months. It's a very wonderful experience in terms of what we have rolled out. I'm sure initial cost is borne. When do we see the result of this in this next second half? Or we'll see it from next year in terms of 75% to 80% of the target what we are seeing. I'm not saying 100% would be achieved in 6 months or not?

Srikrishnan Sarma: So this transformation is a journey. It is not something which is like start and stop, start and end. So basically, what we have done is the following: one, the bank did not deploy their liquidity to its fullest extent. So from our mid-60s CD ratio, we have moved towards 75. And then the 75 can go up to 80. Secondly, the liabilities are not growing. Earlier, it was growing at about single digits. And now we have doubled it, and we're growing at double digits and more than the market or equivalent to the market on the liability front. Third CASA, we are maintaining and will continue to grow.

As a result, our deployment opportunities are also high. The second is that within the bank, the deployment, as you know, immediately, we had done this, which is like to deploy in the short term immediately yielding assets better than treasury. But I would say the rate differential was hardly some about 50 to 70 bps, but still it was good, but from that level, now we are increasing it to the next level which is basically where our yield will be more like closer to 9% on those kind of corporate assets, etc, but with same security or not kind of reflecting on anything related to quality and also there is other income through them.

So basically, this is a very conscious strategy. To play this out, it will take the next two quarters to stabilize. And then the growth engine whereby quarter-on-quarter, we will see this. But the current running rate that we have is about between these two segments about let's say, closer to INR3,000-odd crores.

How do we make that INR3,000 crore to INR4,000 crore? How do you make that INR4,000 crore to INR6,000 crore is the next kind of stage of, I would say, developmental activity which we need to do because as we increase coverage feeds as we increase our capacity which is credit processing capacity, technology capacity, operational capacity, etc, we will be able to do. That is that precise transformation journey that we are undertaking. And we believe that the results will start showing up in the following quarters this year itself, but actually to mature and fully blown higher run rate bank would happen in the next financial year onwards.

Sushil Choksey: Second thing is we have technically written off book of about INR3,000 crores including total asset write-off. What kind of recovery are we seeing in current 6 months? And what percentage are we hopeful in the next 18 months?

Srikrishnan Sarma: In the last two quarters, we made INR46 crores and INR32 crores. So approximately, we are at INR78 crores. And we believe that we would be about, let's say, another 100-odd crores, which will come in for this year also -- this rest of the year. So that means that we would see -- we would recover about INR170 crores to INR175 crores in all for the year.

Sushil Choksey: What is the pool left as on today in the balance sheet?

Srikrishnan Sarma: INR3,000-odd crores I think, but less than so INR3,000-plus crores -- fully provided for or almost 80% to 90% provided for. I am being corrected here so they are saying 100% provided.

Sushil Choksey: Yes. So we have INR3,000 crores and you're hopeful of recovery at 40%, 50%?

Srikrishnan Sarma: We'll step it up now, but the current outlook is that we would recover at least closer to INR175 crores from that book for the year.

Sushil Choksey: Second thing is global yield might have been...

Moderator: Sorry to interrupt sir. Please rejoin the queue for further questions. Thank you. The next question from the line of Harshvardhan Agrawal from Bandhan AMC. Please go ahead.

Harshvardhan Agrawal: Sir, just on the guidance of slippages you mentioned 50 basis points. So I wanted to check if you are talking about gross slippage or net slippage?

Srikrishnan Sarma: Gross slippage.

Harshvardhan Agrawal: So sir just doing the math our first half slippage is already INR660 crores which is anyways even if our book remain where it is

more than 50 basis points. So how is that on a gross basis we do have 50 basis points for the full year?

Srikrishnan Sarma: So what has happened is that one, that there is this restructured assets which we started with INR4,500-odd crores which has come down to about INR1,051 crores without related accounts as of now. So, obviously, the last residual on that which is something where these are very granular kind of loans. So we believe that as we kind of engage with them, post this moratorium period ending, we believe that there will be some kind of slippages there. So that is why we have provided for this 0.5 compared to the 0.09 and 11.11% for the first two quarters. So we believe that this 0.5 is conservative, but still I think very doable. So that is the first point.

The second point is that we have deployed very clearly some teams to focus on this net NPA because of this new collection head coming in for again loans lesser than INR50 lakhs, etc because that requires a lot of collection mechanism to be put in place. So we believe that portion will also start kicking in now because currently the larger tickets are what is being chased by the bank for this recovery and which is where the recovery is happening both in terms of the technical write-off book as well as regular book NPA.

So we believe that within that NPA book, through deployment of this external collection agencies, etc which will be more applicable to the retail side, we believe that we could see some kind of healthy recoveries there. So that, I think, is a quick commentary on the overall slippages.

Harshvardhan Agrawal: Sir, what I basically understand is when we talk about gross slippages and when you talk about 50 basis points for the full year guidance we are taking into account the recoveries or upgrades that we may have during the year, is that correct?

Srikrishnan Sarma: Yes, correct. Absolutely. Even this quarter also, there have been some upgrades, but very minimal. So just to let you know I will tell you the

upgrades that have happened for the how much is upgrade for this year? Additions were around like INR242 crores that have happened, but then we have also done the reduction through this INR329 crores. So the total was INR163 crores plus and technical write-off all put together during the quarter. So we have a breakup which we can share it with you.

Harshvardhan Agrawal: Yes. Got it. My question is answered.

Moderator: Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Yes, hi sir. Congratulations for the steady quarter. Just again, clarifying on the quarter-on-quarter 30 bps decline in the NIMs is what you mentioned is a INR4,000 crores of a book which was excess liquidity which you deployed in the treasury. And because it was an AFS book and you couldn't report that INR70 crores of income, otherwise it would have been higher by INR70 crores. Is that understanding right?

Srikrishnan Sarma: So let me just clarify that. One is that we had a onetime refund of IT and the interest on that, which was INR81 crores for the first quarter which I had already mentioned during last earning call. So that is an opportunity which was onetime and which will not happen again. The second part is that the INR4,000 crores that I was telling you is that between a surplus liquidity and non-SLR liquidity that we had, we have deployed that into treasury yield rather than having to deploy them into corporate assets.

And that is a conscious call that the bank took where even if the treasury yield was a little lesser, but still we would have actually made more as far as the longer-term is concerned. The last part is that if we had taken the treasury income for this year which is the H1, both quarters put together because MTMs on treasury as you know is the latest position. It is not by quarter. So I'm saying it for the H1.

Last year, we could recognize that into P&L, but had we considered the same accounting policy, which is not allowed by RBI anymore, that would have been INR71 crores. So that is an addition that we have.

Priyank Chheda: Perfect. That got answered. My question is on sir outlook on the fee income part knowing that you have been building up a team. How should we look over a longer period of time, the fee income part which is I think we are almost half to what industry would be in terms of the percentage of the assets income which is if you can provide outlook on the fee income and as well as on the retail loans when we say that we would like to grow the book. Any particular segment of the retail that you think is the key focus area that we should think over next 6 months to 12 months where you will grow your book substantially?

Srikrishnan Sarma: So I'll answer that last question first. I think I've already mentioned that before. But on the retail side, there is obviously a focus on mortgage vehicle and education loan and also gold which is shining product for us, where the yield is also good and the growth is also good. We believe that both agri and non-agri loan will also be part of the whole journey on the retail asset side.

Now coming to your first question which is related to fee to assets. Yes, I agree with you that fee to income as a percentage in comparison with many banks we are very low. We acknowledge that and which is why we are now putting in place all these products. So the cross-sell penetration which is very essential both on the retail side as well as on the corporate side is something that we want to look at. So for this, we had to put our technology in place. So currently we do have the third-party income coming from insurance and investment distribution products.

But again, with the wealth advisory platform coming in, already we are seeing this going up compared to the last year. In fact, compared to the last year, the number was almost like doubled of last year, and we are on that track.

The second is that, there is a cross-sell opportunity, which is basically on trade and foreign exchange. And this is something that will materialize in the next following quarters only. So we do not have the infrastructure product or related to the knowledge know-how to be delivered at the branch level. So we have now just kind of restructured our corporate finance branches in five locations and also the overseas branches and the nodal branches who can handle foreign exchange businesses.

The last is that our regular other income, fee-based products, like Locker, debit card and broking, etc., are all more or less on track. We are making, whatever we were making the last year. But all that will increase because of these three areas, which is distribution products of third-party insurance investment broking and also the trade in forex. So we will definitely see that happening, but that is currently in the build and execution phase.

Priyank Chheda: Perfect. Just last question, the loan book composition, how much would be EBLR linked? How much would be fixed? A broader bifurcation if you can provide. And in case, what happens to the yields on the loans if, say, there is a rate cut coming up in the next 6 months by RBI? So how would our loan book yields move?

Srikrishnan Sarma: So a great question. About 50% of our book is EBLR linked. There could be some on the retail side also. But overall, I'm saying I'm calling out to say that about 50% would be EBLR plus. Now as and when there is a rate change, obviously, the asset side will be repricing first and followed by the liability side. But having said that, because our retail liability, which is forming almost 92% of our overall term deposit and whatever that we have, because we do not have bulk. So as a result, while there will be a residual, but we can change rates at short notice, and we will be able to match the ALM between the two.

So, it is not like other banks where there is always a lag between asset repricing and a liability repricing. So that is something that we are

confident about this. But having said that, we have anticipated in terms of the interest rate changes scenarios, etc. And with our treasury and our advisers on the treasury, we are making the right calls at least so far, and we believe we will be on the right side on those interest rate changes as we go forward.

Priyank Chheda: Thank you and all the best for the future.

Moderator: The next question is from the line of Anand Dama from Emkay Global.

Anand Dama: Sir, my question is on LCR. You said that you have affected the recent draft guidance, which actually came from RBI. There since RBI asked to increase the runoff rate, have you increased the runoff rate in your LCR calculation? Or is it more to do with the recent RBI supervision where they had asked banks or select banks to basically reverse their LCR?

Srikrishnan Sarma: So I'm handing over the call to Raghuram, who is our Chief Risk Officer. While there is a high-quality loan book, etc., which is there is the change, but he will exactly explain how the changes have happened compared to the earlier part of the year when we had done the LCR calculation. But now on a conservative basis, we are sticking to the draft guidelines although we are not compelled to do that, so that's something which Raghuram will explain.

Raghuram H S: Currently, the changes were for the top line, i.e. HQLA were there was a change from the way the level 1 assets were being taken, basic from the book value to the market value. Second point was the runoff factor changes based on the type of digitalization availability that was a point. We agree there are certain grey areas still in the RBI draft circular, which is being addressed. Definitely, there is a jump in the runoff factors for certain kind of classes. So that is why there is a downward trend in the LCR across the Bank.

Srikrishnan Sarma: So I guess, we are awaiting clarity because we've asked these questions to RBI also. But having said that, this is being represented at multiple

levels, including IBA because this is not a Karnataka Bank phenomenon. This is across the banking industry where the changes are underway. But we believed that if we test the waters on this and report, how would we be and we are still 142%, which is a very comfortable stage and which is what we wanted to report this quarter.

Anand Dama: Sure. So for the investors or the analysts basically you're reporting this kind of LCR is fine, but the RBI, when the reporting goes is relatively high relatively high LCR because then you will not affect this data.

Srikrishnan Sarma: Yes. correct.

Anand Dama: The second last question is on your loan book where you have reduced down your growth guidance from about 18%- 20% to 15%. What will be the share of retail loans for your new classification that you have in the presentation?

Srikrishnan Sarma: Our mix will remain the same, 50% from retail, and the balance 50% will come from direct to corporate, as I explained earlier, to other callers.

A combination of various segments within that. But again, this is the conscious transitional strategy. It is not something where the bank had slowed down the engine or anything. Because of the market conditions and the fact that we did not get stuck on the wrong side, we believe that it is better to kind of deploy them back into treasury, which is how we have not grown our asset book. But we will come back. The engines that we are building up now, which is retail and the direct to corporate strategies will start kicking in and we believe that our asset acquisition will be at a higher yield compared to before. For just to confirm, retail, plus mid-market, MSME, etc., is about 60% right now on the run rate, and the balance 40% is coming from large corporates and other mid-sized corporates.

Anand Dama: And so your ROE guidance is about 1.2 to 1.4, whether there is a download revision in that as well or like that?

Srikrishnan Sarma: No, we would stick to that guidance. This is a temporary blip because of this quarter strategy. We would come back to our 1.2 range very soon.

Anand Dama: So you said that you have a guidance of about 0.5% slippages. And then Harsh asked you that, basically means that gross slippages minus recovery minus upgrade. So you said that also you need to reduce the write-off from them?

Srikrishnan Sarma: Correct.

Anand Dama: I believe is typically would be gross slippages minus the recovery rate and not the write off. So what will be that guidance?

Srikrishnan Sarma : Yes, correct. We confirm that.

Anand Dama: So this 0.5% is gross slippages minus recoveries and upgrades, right?

Abhishek Sankar Bagchi: Currently, it is the actual additions to NPA and the reduction and the recoveries also.

Anand Dama: I think you can take this offline. I think particularly the nomenclature that we use and I think what we are using is slightly different.

Srikrishnan Sarma: I think we can give you additional information.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of our Q&A session. I would now like to hand the conference over to Mr. Srikrishnan, sir, for the closing comments.

Srikrishnan Sarma: So on behalf of Karnataka Bank, our management team, and the Board, I wish to thank you, our investors, for your support, all the analysts for your questions and guidance. There has been a significant contribution and suggestions that we have received in the past on the disclosures and the changes to the presentations, etc. We have taken all that into consideration in the last couple of quarters. So, every quarter, we are only improving on the overall delivery.

Thank you very much for the support, and we see that the future is good as far as the upcoming quarters are concerned. Once again, thank you, all, and best wishes for the festive season.

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