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SECRETARIAL DEPARTMENT

May 27, 2024
HO: SEC:48:2024-25

1. The Manager
   Listing Department
   National Stock Exchange of India Limited
   Exchange Plaza, C-1, Block G
   Bandra-Kurla Complex, Bandra (E)
   MUMBAI-400 051
   Scrip Code: KTKBANK

2. The General Manager
   BSE Limited
   Corporate Relationship Dept
   Phiroze Jeejeebhoy Towers
   Dalal Street
   MUMBAI-400 001
   Scrip Code: 532652

Madam / Dear Sir,

Sub: Transcript of Q4FY24 Earnings Conference Call

We refer to our letter no.: HO:SEC:46:2024-25 dated May 26, 2024 on the subject matter.

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 Analyst / Investor conference call held on May 24, 2024 on the audited financial results of the Bank for the Quarter and Financial Year ended on March 31, 2024.

Certain grammatical corrections were identified and carried out for the sake of good order in this submission.

The same is also being made available on the Bank's website under the following web link:
https://karnatakabank.com/investor-portal/investor-presentations

This is for your kind information and dissemination.

Yours faithfully,

Sham Kanathila
Digitally signed by Sham Kanathila
Date: 2024.05.27 00:41:22 +05'30'

Sham K
Company Secretary
& Compliance Officer

Edited Transcript of

"Karnataka Bank Limited
Q4 FY '24 Earnings Conference Call"
May 24, 2024

MANAGEMENT: **MR. SRIKRISHNAN H – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – KARNATAKA BANK LIMITED**
MR. SEKHAR RAO – EXECUTIVE DIRECTOR – KARNATAKA BANK LIMITED
MR. BALACHANDRA Y V – CHIEF OPERATING OFFICER – KARNATAKA BANK LIMITED
MR. ABHISHEK SANKAR BAGCHI – CHIEF FINANCIAL OFFICER – KARNATAKA BANK LIMITED
MR. GOKULDAS PAI – CHIEF BUSINESS OFFICER – KARNATAKA BANK LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY 2024 Earnings Conference Call, hosted by Karnataka Bank. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Srikrishnan H: Thank you so much, Zico, and good evening, ladies and gentlemen. This is Srikrishnan, MD and CEO of Karnataka Bank. I'm joined here by Sekhar Rao, who is our Executive Director; Abhishek Bagchi, CFO; Y V Balachandra, COO; and Gokuldas Pai, Chief Business Officer..

Welcome to this Karnataka Bank Q4 FY '24 Annual Results and Q4 call. We have had an excellent financial year with growth registered across all the key metrics. As I've mentioned in the last couple of quarters, the key metrics that are critical to us, and that will define the bank's performance for the entire financial year, include growth in advances, aggregate deposits, improvements in quality of our advances book; and favourable ROE and ROA for the stakeholders. We are glad to present that we are on the right growth path as we move forward.

I'm also pleased to announce that we completed our capital raising program, an ambitious program of INR 1,500 crores in a record 6 months' time. This was concluded prior to the financial year ending March 31 2024 by way of preferential allotment of INR 900 crores and INR 600 crores QIP, which was very overwhelmingly subscribed, and we have had some very good quality institutional investors in the bank.

We also had the opportunity to exercise call option on Tier 2 bonds, and we did so during the financial year between November and February, totalling INR 720 crores at a coupon of 12%. This was very beneficial as we move forward with this benefit into the new year.

So some brief comments on the numbers, which have already been uploaded to the website and the stock exchange as well as our own website in the investor presentation. We have had the highest business turnover in the history of the bank, crossing INR 171,000 crores, which is up by 15% on year-on-year basis from March '23. Our Profit After Tax (PAT) has been an all-time high at INR 1,306.28 crores compared to INR 1,180.24 crores last year, an increase of 10.68%. It is also noteworthy that during the last quarter, we had a onetime provision, which is the actuarial provision for long-term retirement benefits due to the revision in the 12th Bipartite Wage Revision agreement, amounting to INR 152 crores. This is a one-time event and not a recurring issue.

And the other thing is that we celebrated our centenary year in February, a couple of months ago. During the centenary year, there were a lot of celebration at our branches and regions. This was again a one-time expense of about INR 11 crores during the quarter. So, in total, our onetime expense, which is not going to recur, amounts to INR 163 crores. After accounting for this one-time expense of INR 163 crores, the bank recorded a profit of INR 274 crores. Without this onetime expense, our profit would have been INR 274 crores plus INR ~ 125 crores (net of taxes), which is what we need to really count in terms of the running rate as far as the bank is concerned.

This is, by far, very encouraging as far as our entire growth path is concerned. The positive aspect is about the key metrics that I'm going to call out right now. One is gross advances. Our advances book grew by nearly 20%, specifically 19% and above. Our gross advances as of March 31, 2024, stood at INR 73,001.66 crores compared to INR 61,302.78 crores last year, recording, as I said, a 19-plus percent growth. This outpaces the market, which is believably growing at about 15% to 16%. So this is good news in terms of making sure that we are growing our overall book.

Our aggregate deposit to support the growth in the advances also grew very well. We closed the year with INR 98,058 crores as on March 2024, compared to INR 87,368 crores last year, a jump of nearly 12%. This growth is supported by a very good CASA ratio, which stood at about 31.97% of aggregate deposits. Between the retail term deposits, the retail CASA, and the overall corporate deposits which are actually very minimal. We've been growing this book very well. All the branches are contributing, and it has been an all-around growth in terms of our deposits as well as advances. I will also talk about the constitution of each of these.

Because of this healthy growth, our CD ratio has been enhanced to 74.45%. It's a continuously improving ratio. Quarter-on-quarter over the last financial year, we have been growing in this area. The good news also pertains to stressed assets. The net NPA has improved to 1.58% from 1.70% in March, and gross NPA has improved to 3.53% from 3.74%, but that's not all. The gross slippages have come down to 2.8%, which marks a major improvement from the last financial year, where it stood at 3.31%.

The overall standard restructured advances and also the GNPA, if we total it up, excluding related accounts, our gross advances number compared to March '22 was 9.51% as a percentage of GNPA plus restructured. As of March '23, it was 7.14%. And as of March '24, we have come down to 5.31%. So this is a very healthy trend as far as the bank is concerned because all the concerns that we had about the historical book are more or less brought under control, but there is still some way to go, and we are working very hard to ensure that we stay on right trajectory with regards to this ratio.

We have had a good recovery here. We recovered almost INR 276.98 crores, which is more or less in line with what happened last year as well. So this is, again, a reflection of the fact that the collateral-based lending that the bank has done has yielded results even when it comes to recoveries. Our PCR, the Provision Coverage Ratio, is standing at 79% at a similar level compared to the last year. So we maintained the same. And the core provisions without technical write-offs stands about 56%. It has improved by 75 bps compared to March FY '23.

Our NII stood at INR 834 crores for the last quarter, it's marginally increased. And our NIM, which is a more important metric, stand at about 3.51% annually, which is in line with the guidance that we have given of 3.5% to 3.7%. Now, despite the increase in cost of deposits across the banking industry for the last 2 quarters, obviously, that had put a pressure on NIM. We are happy to report that our loan yields have continued to be at the same level at 9.89%. So the NIM, which has seen couple of bps changes, has really not been impacted because it has been more due to the cost of funds, which has increased from 4.74 to about 5.40 in March '24.

Now we have launched a lot of initiatives to gain the benefit of CASA. So we are a bank that can collect direct taxes, can collect GST and also customs duty. And we also have inducted a whole lot of over 518 sales offices with feet on street for covering key markets and target segments. So the strong retail franchise of over 925 branches in Karnataka and across the country has definitely provided the access to low-cost deposits. We are not in the bulk deposit market. And that, again, is a reflection that all our term deposits, 90% plus are lesser than INR2 crores, which is again a good metric to have. And we are by far comfortable with this.

Our credit cost has improved to 0.84% compared to 1.48% last year. And again, here, this is a reflection of the fact that our overall efficiencies have increased and our cost of delivery has also had a positive impact. Our cost-to-income ratio, which I have reported in a couple of quarters ever since we took charge saying that there will be a temporary increase, which has been reflected. So it has increased to 53.15%.

But our guidance for this financial year, by the end of the financial year, 4 quarters from now, we should see sub-50 or closer to 50, which again, would be due to a lot of rationalization, a lot of digitized processes and ensuring that our cost is under control. But this is a temporary blip, which is primarily due to recruitment of people, investment in the technology platforms, and infrastructure.

Our ROE is very healthy despite an increase of INR 1,500 crores of base, we are at about 13.71%, obviously lesser than the last year's 15.42%. But again, this will improve as this is a onetime impact due to the capital raise that has happened in the last quarter of the financial year. The ROA has been maintained about 1.22%. Our guidance has been 1.2% to 1.4%, we are sticking to that guidance. So this is, again, good news for investors and stakeholders.

The capital adequacy ratio stands at 18% with a breakup of 16.17% in Tier 1 and 1.83% in Tier 2. And this is, again, very clearly reflected due to our capital raise. It's a substantial improvement, giving us good headroom as far as the growth is concerned. So the capital that we have raised will be used for funding growth in the book via advances because of the fact that we need to be maintaining a very healthy capital adequacy ratio. The rest of it is going to be primarily for investments into digital, technology and all of the infrastructure along with the people that are required for repositioning this bank.

And as you are aware, we launched the campaign in the last quarter, coinciding with our centenary year to reposition our bank as "Aap Ka Karnataka Bank, Bharat Ka Karnataka Bank." So, this is something where, despite the fact that we have 2/3rd of our branches in Karnataka and the interior locations in Karnataka, we are very well covered nationally with 22 states and two union territories being represented. And these are all mainly urban branches. We believe that in the next couple of quarters and years, we would actually have a 50-50 mix between Karnataka and non-Karnataka business.

So on this note, I would like to conclude the initial commentary and introduction from the bank related to the results and would request our coordinator to pass on any questions, calls that would already have got queued.

Thank you once again for joining, and over to you, Zico.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Sandeep, who is an Investor. Please go ahead.

Sandeep: Thanks for the excellent result and thanks for your leadership. I really appreciate the way you are taking the bank forward. Sir, my question is with regard to the celebrations of 100 years, why did you not give investors the chance to celebrate with the bonus, sir?

Srikrishnan H: Sandeep, we have considered this, and we are also happy to announce that the Board has recommended a dividend of 55% today, and this will be recommended to the shareholders for approval, and this is much more than the 50%, which was declared last year. And this is on the higher capital base that we have actually enhanced now. So this is indeed a way to celebrate with our retail shareholders and along with the other new shareholders, the institutions who have come in. So this is the first gesture from our side related to 55% dividend today.

Sandeep: Just one more question in terms of the net NPA. You did mention that it has come down to 1.53%. Is that correct?

Srikrishnan H: Yes, please.

Sandeep: And sir, in terms of recovery, are there any large recoveries expected in the next 2 quarters?

Srikrishnan H: So what we have done, just to correct you, it is 1.58% on the net NPA. Yes, as you are aware, about 75% of our entire book is covered with collateral. So as a result, the recoverability is very high when it comes to this. In terms of some other larger recoveries, last year, we had sold to a couple of ARCs, and we have also done many onetime settlements, which was in excess of INR50 crores and INR70 crores and so on. But our average ticket size in terms of either OTS or recoveries or whatever as the sweet spot has always been up to INR50 crores and granular. So the data related to this is being uploaded in our website, along with our investor presentation.

Moderator: Thank you. I think the participant has dropped out, sir. Maybe go to the next question?

Srikrishnan H: Yes, please.

Moderator: The next question is from the line of Darshan Deora, Individual Investor. Please go ahead.

Darshan Deora: Just wanted to get some more color on the NIM. So I see that our NIM has changed a little bit downwards between Q3 and Q4. Just wonder also to get your guidance for FY '25 on the NIM.

Srikrishnan H: Just to reiterate, there are two parts: Our overall loan yield and our cost of funds. The cost of funds, as you are aware, has been influenced by the lack of liquidity rather than the market conditions. There has been a flight of deposits into other investment opportunities due to the interest rate scenario, resulting in pressure not only on our bank but across the banking system. Consequently, our cost of funds has moved up, but it is under control at 5.33% to 5.40%. That's the first point.

Secondly, the good news is that our loan yield has not come down. We were always at the 9% to 9.99% in the last couple of quarters. So even in this scenario, we believe that we have done well as far as the loan yield is concerned. Going forward, the constitution of our gross advances, there's going to be a lot more focus on retail, and which is obviously high yielding compared to what otherwise was done.

Additionally, our focus on RAM, which is Retail, Agri and MSME, again, all the three will continue to have the same ratio along with SME, this constitutes almost 2/3rd of our book. And we have been definitely firing all our engines, which is the region, the clusters and the branches. So we believe that we'll continue to grow and the NIM would continue to be at the same 3.5% to 3.7% range, Darshan.

Darshan Deora: Got it. And congratulations on the loan growth, I mean, 19% is a very tangible number, and it is completely in line with what you had said at the start of the year. Most of this growth has come from which sector though? Is it more from retail? Is it from big corporate or large corporate?

Srikrishnan H: So we have maintained the ratio more or less at the same level, Darshan. So about 46% of our book is basically retail and agri and another about closer to 20% has been this SME and midsized corporates, and about 1/3 of our book is large corporates. Again, this large corporates we have institutions as well as corporates who are banking with us.

But going forward, the growth will continue to be more or less at the same kind of mix. But having said that, the retail growth and the MSME growth is something which is looking more promising. And we also believe that there will be some substitution in the large corporate advances where it has been more opportunistic lending because of the fact that our CD ratio had some headroom. And we would probably replace that with midsized corporate lending and we'll also have the opportunity to throw multiple products, and that would have a positive impact on the ROA.

So the churn will be there more at the large corporate end and the rest of the 3 major focus sectors, RAM sectors, would continue to grow. So our growth path, if we continue the same way at about 18% to 20%, which has been the stated objective. So, we believe that somewhere between the 18% growth, we would be anywhere closer to about INR 90,000 crores as of the year-end FY '25 - exit FY '25.

Darshan Deora: That's great to hear, sir. And one last question on the CD ratio. So we have slowly inched our way towards 75% rising every quarter. Have you sort of reached the optimal level? Or can we also aim for like maybe something along the lines of 80%, especially given that we have ambitious targets for advanced growth and the deposit environment still seems to be a little bit challenging.

Srikrishnan H: So our deposit engine has started firing well. In fact, we are monitoring this across all our 14 regions on a daily basis and accretion has been very healthy. So given that, we believe that the 75% is good, but we do have headroom. Technically, we can go up to about 80% also. And that 80%, it is not a stretch at all. It will be very comfortable. And there is also the deposit engine, which is funding the growth on advances. So, it's a very calibrated growth on both sides.

Darshan Deora: Great, sir. One last suggestion. Point taken about the onetime expenses. It would be great if in the future, you could incorporate a slide where you sort of give us the proforma financials and the ROA and ROE numbers excluding the onetime expenses. So just that as analysts becomes a lot easier for us to have that data.

Srikrishnan H: Point taken. And in fact, this time, even in our investor presentation, we have clearly highlighted it on the slides. But yes, we have not included a scenario with and without it technically, but we will check it out. But yes, point taken. And with analysts, we are explaining this, and this is a one-off nonrecurring expense, as I mentioned earlier. This is due to the wage settlement and actuarial provisioning that has been made. We could have done it in multiple quarters like many other banks, but we thought that it is prudent to have this done because we have done well in terms of our strong financials. So we thought that it would be prudent to do it in this quarter itself.

Moderator: Thank you. The next question is from the line of Prakriti Banka from HSBC Mutual Funds. Please go ahead.

Prakriti Banka: Sir I would just request you to publish your results and give us enough time in the future to sort of go before we come for the call, so that it is more fruitful for you and for us as well.

Srikrishnan H: Point taken, ma'am, surely. Prakriti you can always reach out to us.

Prakriti Banka: No, sure it's just that, I mean, right now, I'm on the road sir, even the questions just probably going to be something that I could have gotten and will be getting out of the presentation as well. So it's just a better use of all our time.

Srikrishnan H: We understand.

Prakriti Banka: Yes. Just quickly, within retail, what are the segments that are driving your growth?

Srikrishnan H: So within retail, on the asset side, primarily speaking gold loans and housing loans, these are 2 flagship products, which has resulted in a good growth rate. The Middle Market, which is comprising of MSME also has been kicking in well. So the ratios, if you really look through, these are the three main sectors which have contributed to the growth on the asset side.

On the deposit side, 90% of our deposits are INR 2 crores and lesser. So this is something which we believe that is very healthy. And one more product that the bank is looking at, and since we do not have a credit card product from the retail assets. And as you are aware that 90% of our book has been collateral based on the advances side. So for the first time, the Board has approved a policy for unsecured, and this will be primarily driven by the credit line on UPI as a product.

And we are engaged with one of the leaders in this space, large fintech NBFC. And we believe that with that will be the beginning of our launching of retail asset program, including unsecured.

Prakriti Banka: Got it. MSME how much did you say that word because you were also in the process of revamping your risk assessment etc. of MSME, right? So maybe what I thought that was going to be coming a little later. Are we ready with that right now?

Srikrishnan H: No. that is still WIP. But the growth in terms of the overall MSME business has been about 18% to 20% so far. And our Investor presentation has the sector-wise growth in terms of both advances and asset quality, which is, again, for the first time we have divided that by sector in both the cases. So that will give you an idea. But just to call out now, MSME is about 24.7%; retail is about 24.4%; and Agri is about 13%. So if you total these 3, we are closer to 63%, as I said. And if you add the SMEs, it's a little more. And then that leaves only the larger corporates and the others, such as NBFC.

Prakriti Banka: Got it. Also just this mix, the main drivers that you mentioned in retail, are these going to be the main drivers? Because I mean, housing, from what I understand, what is the competitive scenario like? And would that be a bit, say, really dilutive from where you are right now?

Srikrishnan H: We are approaching this in a slightly different way, this entire season. So what we are trying to do, we have a lot of builder relationships in the key cities. So particularly in Bangalore, Mangalore, Chennai and a couple of other places, we have this huge builder tie-ups. Now construction level financing, which leads retail into housing loans and construction financing in the commercial side, which will lead us into an LRD product that is being promoted at the branch level.

So, between Sekhar and I, we have been going to all the regions and doing reviews with the branch heads to that level of granularity. We are promoting the relationships as well as the business, which will be like package so that we have a continuous relationship not just ending with a construction loan, but which will gradually become a longer-term relationship with multiple counterparties associated with them.

And just to give you the sector-wise on this credit portfolio also, as I was saying, even on the quantum, retail up to INR 7.5 crores is almost like 67% of our portfolio within retail. And INR 7.5 crores up to INR 100 crores is the balance, which is the 33%, which is comprising of the mid-corporate and the SME level, yes.

Moderator: Thank you. Ladies and gentlemen, the next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Again, as a suggestion, it would be great if you can follow the best practices of some other peer bank like federal etc. for presenting this because, (a) there is no time which has been given for the analysts to understand what has come in the presentation. There's hardly any time between the disbursal of the result and the analyst call, (b), they're barring one slide, sir, all the other slides are pertaining to financial year. So it is not that we are not able to make out what has happened in the quarter. It is more like a financial year presentation.

Srikrishnan H: Sarvesh, point noted, and apologies on this. This is a day which was very important from a Board perspective because we handle many more other progressive, few of and very developmental kind of agenda items. Yes, we will give you more time and we'll ensure that this is not repeated again. And we are available for any calls later on. If you do want to ask questions, after looking at our investor PPT, which has been uploaded to our website, we are happy to answer calls later. You can reach out to us.

Sarvesh Gupta: Yes. Okay, sir. And sir, on the questions part, so last financial year, in 4Q, we had shown a degrowth because we had gone on a strategy to increase our retail mix. This year, overall, if I see the mix has actually gone again in the favour of large corporates and we have also seen a steep decline in the NIM. So, this is something which is slightly contra to our understanding of the bank's strategy?

Srikrishnan H: I think that if you look to our growth in the advances' portfolio, it is not what you are seeing because our growth in retail on enhanced book of closer to INR 13,000 crores. If we have maintained the same mix of business at 2/3rd coming from retail and MSME and agri. So, we believe that we have done well because we have not gone into the corporate side. That is one. The second is the large corporates. Out of that, there is a portion which is large corporate, which is very, let's say, high-end PSU, opportunistic treasury kind of lending. And there is a portion which is the longer-term corporate lending, but without products.

So, this is where we are going to do a churn as a strategy this year to develop a midsized corporate business and we have recruited midsized corporate wholesale banking head from DBS and Standard Chartered Bank. He was running this business in those banks. And we believe that the relationships that come along with him and as the bank we'll be able to focus and grow that. So, between the growth that we have already demonstrated this year, last year, just to kind of call it out, there was a very clear decision to get out of very high-cost deposits and in the process to kind of get some of those loans repaid, but this has not happened this year.

So, deposits are growing in excess of the liquidity we have deployed, and these are all short-term loans that are more market rate-based. So, the last point, which you asked about was NIM. For a growing bank and for a bank which is embarked on a transformation journey like us, we believe that anywhere 3.4% to 3.7% is a very good kind of a range. We have actually exceeded that range to be about 3.51%. The last year was different because it was a limited size book. But in the enhanced book and despite the huge pressure on NIMs across all banks on deposits because this is actually deposits, which is impacted us and not the loan yield, as I said earlier.

So, we believe that we should be able to take this even better because even if deposit and the interest rates are not very favourable, we believe that the growth in retail would give us a kicker in the yield and would improve this current loan yield from our 9.89% to probably a little more. So, we believe that maintaining NIM and growing this within the range that we have guided, which is 3.5% to 3.7% is possible and this is good for us from our perspective.

Sarvesh Gupta: Sir, what sort of growth guidance will you be factoring in? Because this time, we have got 19%, but that is on the back of 4Q '23, which was a degrowth quarter. So now going forward, what sort of advances growth rate are you pencilling in?

Srikrishnan H: So, we are targeting technically anywhere between 20% to 21% as far as the growth and advances is concerned. And this is on the book, which is at INR 73,001 crores. And we believe that anywhere between INR 15,000 to INR 16,000 crores more if we add we are growing much ahead of the market. And this was my stated objective when I took charge, saying that 3 years, which was way back in June '23, before we even settled down in the bank, I said that we should be looking at INR 100,000 crores advances book, exit March '26. And I think we are sticking to that, and we are very well on track as far as the run rate is concerned.

Sarvesh Gupta: Sir, on cost to income, now if I adjust this INR 153 crores plus INR 11 crores, then we are already at the 50% cost to income. So, now last year, we had also sort of put in a lot more resources to increase the retail mix and all. So, going forward, are you expecting any sort of benefits flowing in from the cost to income going down from this 50% that is there in FY '24?

Srikrishnan H: So, there are 2 parts to this. One is that we have to limit our costs; and the second is to increase our income. Now both are the strategies that we are adopting. So, the cost part of it, over the last 8 to 10 months, we have brought in lateral leadership teams. We have a new CIO. We have a new Chief Product Officer. We have a new wholesale and a midsized corporate business head. We have an IR and a partnership head. We have all such very specialist kind of recruitments already done.

The second is that our baseline technology we have added. So, we have embarked on a project, which is to make sure that our entire digitized platforms, our analytics-driven platforms are all fully in swing. So basic and baseline investments related to that and the architectural part to scale up in terms of volumes, reliability and scalability has also been done from a technology perspective.

Last one is that we were focusing a lot on process. So, there are a lot of process improvement that have been done, including centralization. We're setting up our national back office in Mangalore and we believe that, that would result in a lot of cost efficiencies as well as operational efficiencies by releasing bandwidth at the branches for doing more sales.

Last part is about investment into people, sales teams. As you are aware, we are a bank where the feet on street and the sales team have low fixed costs and higher variable costs. So, we have rolled out a variable pay program, which is based on performance, basically increasing in business even at a branch level. So over and above the pay scales that are currently there, whether they're IBA-based or whatever, we still have this variable pay program which we have launched, which are linked to targets and which are linked to performances. And this includes group targets, which is a branch target also.

So, we want to make sure that all of the distribution outlets that we have are all meeting targets and actually becoming more and more productive. The last one year, we have made sure that the contribution, which is the business contribution volume by employee, has improved significantly and we want to increase that even further.

Sarvesh Gupta: So, sir, are you expecting this 50% to go down materially this financial year?

Srikrishnan H: Earlier I had committed saying that we will bring this cost to income closer to sub-50 by the end of this financial year FY '25.

Sarvesh Gupta: Okay, sir. And sir, finally, now our credit cost has come at 0.8% odd. So how do you see that playing out in the coming year? What would be the gross credit cost? And have you seen a lot of recoveries this year, which has helped this partially? Or how do you see it coming?

Srikrishnan H: So, banking industry works around 1%. So obviously, we have done well this year, but we believe that even anywhere within up to 1% is good. But we do have a good recovery rate even now as I speak to you because this is working very well because the overall GNPA numbers, the slippages have come down and recoveries have been very, very healthy. And we believe that this quarter and the following quarters this year also, we would have some healthy recoveries, which would have an impact. So, I guess we would be hovering around between 0.85 to 100 bps.

Moderator: The next question is from the line of Sushil Choksey from Individual Investor.

Sushil Choksey: Congratulations to team Karnataka for having an excellent year in terms of fund raise and various aspirations. The first question you answered to the first questioner about the aspirational growth to INR 90,000 crores to INR 1 lakh crores between '25 and '26. To sustain that kind of credit growth, how are we working towards human resource and trade deposit mobilization?

Srikrishnan H: Thank you, sir, for the compliments. And yes, this is the next phase of growth. So basically, what we have done is that we have set us the baseline in terms of setting ourselves up for growth in the advances as well as for the deposit side. So, there are 3 parts as far as the deposit is concerned. One is that there is a franchise which is through the branches. The second is through the sales teams because we've created a sales organization. The third is that for our existing to bank ETBs, we have a data-driven analytics platform, which gives a lead generation on the basis of transactional behaviour of each of our clients. And this has kicked in very well.

So, on a regular basis from the back end from the Analytical Centre of Excellence, we are pumping in data to say that who are our target for FDs, who are our target for third-party products like insurance? Who are our targets for converting dormant account into an active account and so on. So basically, this has been on the deposit side. As far as the loan engine is concerned, we have very clearly done some verticals. We also got it in the investor presentation. So, we have already made an offer to a retail asset and the MSME business head. He's joining us shortly. And we already have our midsized corporate business head who has been in the system for about last 45 days.

And we already have started a lot of process transformation specifically on the credit processes by deploying one of our world-class Singapore-based agency who have got a lot of banking experience in India. They are professional risk and credit managers who have worked in larger banks. This is a 12-month project. So, between the new people coming in, the coverage team between strengthening credit sanctions and credit processes through this transformational study and also the technology, which I called out for on the deposit side. We believe that we have the capital. We have strengthened the key management and creation of the sales and customer-centric organization.

We have increased our product range. We have launched 18 new products in this financial year. And these are all CASA and some more are coming in, as I was telling the earlier caller about something on the retail asset side also. So this is going to be a continuous process for both the retail and the MSME advances and on the deposit engine, sir.

Sushil Choksey: Okay. What is the sustainable employee cost? Because this year, I suppose IBA would have impacted in the annual payout. So, what is our sustainable employee cost on a year-on-year basis?

Srikrishnan H: So last year, if you look through, we have accounted for it, ever since November '22, we have been providing for this, and it is something that which has already been boxed there. The second thing was that because of the pay scales, which were announced just now, we had to do actuarial provisioning for increase in leave, increase in the pension, increase in a couple of other retiral benefits and so on, which is the onetime that we have incurred.

Sushil Choksey: What is the number on onetime?

Srikrishnan H: The number on onetime is INR 152 crores on just this actuarial provisioning in this quarter. The running rate as of March '24, our overall staff, which is including salary plus superannuation benefits is closer to INR 1,372 crores. So, if you want to know the number, yes, it will be anywhere between INR 1,300 crores to INR 1,400 crores on the overall number.

Sushil Choksey: And to the previous questioner you spoke about financing home loans and construction loans and LRD. Are we targeting more of an affordable segment for a higher yield? Or are we going to do normal home loan products like any other bank?

Srikrishnan H: We'll do both, sir and we want to consolidate in markets where we are present. So as I was mentioning earlier, Bangalore, we have over 100 branches. Obviously, we want to take advantage of that, and we are trying to set up a retail digital factory there, which will basically be the unified kind of retail hub. If we succeed here, then we would want to kind of replicate it in major T2, T3 locations also because this is the way that the retail business is going and that's where the process transformation part happens. Affordable housing, we have been funding directly to a couple of NBFCs. And if we believe that we could get into some kind of strategic arrangement based on our experience, we will definitely be considering that also.

Sushil Choksey: What kind of TAT are we targeting in this segment?

Srikrishnan H: Sorry, repeat your question?

Sushil Choksey: What kind of TAT are we targeting on the segment of housing loans, gold loans. Gold are less than few hours, but then a housing loan or a consumer loan?

Srikrishnan H: So, what we are trying to do is that if we have this builder tie-ups, which is what we are aiming, then the whole project gets approved. And then other than your Aadhar and your income verification with the individuals, we do not have to repeat anything related to that documentation and approvals. So, we believe that we would want to get into a T plus one TAT as far as the housing loan is concerned on this kind of pre-approved projects.

Sushil Choksey: Sir, the entire banking industry is benefited by RBI dividend and inclusion in the bond index, JPMorgan, Bloomberg. What is comforting Karnataka Bank Treasury on an outlook for the current year? And will we monetize our treasury for gains and look for more credit growth by booking profit if you get 675, 685 range?

Srikrishnan H: So Sekhar is here, our Executive Director. He will take on this question because he is actively involved in managing treasury. But more from an overall perspective, let me tell you that we are managing about close to INR 26,000 crores to INR 30,000 crores treasury book, and that's not small. Secondly, we do have positions, which are very favourable if the interest rate movement also become favourable. So, at any point of time, opportunity wise, we will definitely encash. But Sekhar, would you be able to take on this?

Sekhar Sridhar Rao: So, regarding the RBI, yes, there could be some near-term impact, and we will navigate through that. As is the case with most banks, there could be some positive outcomes, and we won't miss the opportunity there.

On the slightly mid-term to long term, there are a couple of events, of course, the big one being the elections results, then the U.S. elections as well. And the guidance on what we call reference rate. So, we are watching it closely, but we see that over the year, all other things considered, there could be some favourable rate movements. Accordingly, we will calibrate our treasury of strategy as well.

Sushil Choksey: And my last question to Sri. Your strategy in the last 12 months has worked towards equity raise. Now your aspirational goal of INR 1 lakh crores advances by FY '26. Based on your calculation between retained profit and the current equity other than Tier 1 and Tier 2 bonds, would you raise equity in the next 24 months or there's no equity required?

Srikrishnan H: I think we are good up to, our INR 90,000 crores to INR 1 lakh crores target because, as you know, we have repaid INR 720 crores of Tier 2. And at any point of time, if our capital adequacy is under challenged, if interest rates are favourable and our bank growth reflects in better credit rating for us, we'd be able to get some funds at reasonable cost.

And we believe that cost of funding because of the equity we have done already, and we believe that the next round could be a Tier 2. And with that, we'll be able to manage very clearly up to this INR 1 lakh crore.

Moderator: The next question is from the line of Prabal from Ambit Capital.

Prabal: The first question is on the movement of NPA, if you could highlight slippages, recoveries and write-offs for the quarter?

Srikrishnan H: Okay. Here you go. So as far as on our entire stressed asset is concerned, net NPA has come down. I'll call out some numbers so that you would be more comfortable. Our total NPA as of March '24 was INR 2,578 crores and without related accounts, our restructured assets have come down to INR 1,295 crores.

So, if you look through this as a percentage of gross advances, this is about 5.31%, which is comfortable because for NPA, we would have provided for at least up to 65% or sometimes more depending on the weightages. And on the restructured book, we would have a provision of about 15%. So that is why the coverage, the PCR is also intact.

Second is that there is a technical write-off book, and there is also a recovery. Recovery from existing NPAs, even if it is half and half, we believe that this would contribute to the overall metrics as we go forward because on an average, we have been collecting, recovering at least about INR 300 crores or so.

The third is that in terms of, let's say, the historical assets and the new assets. The new assets we have put in place a lot of credit monitoring mechanisms, and we believe that the new book that we have is pretty healthy. And we have also got the earlier book under control because at some point of time, we see if you are aware. The bank, we were standing at about INR 4,500 crores of restructured book, which has come down to less than 1/3rd. So, we have done well as far as the overall quality is concerned.

Now the second part to your question is related to how would you look going forward? I guess that we want to get the GNPA to about 3% and NNPA to closer to 1% to 1.2%. So, this is how it will play out as we go forward.

Prabal: Okay. And what was the slippage during the quarter?

Srikrishnan H: I think it was 2.88%.

Prabal: In absolute amount sir?

Srikrishnan H: In absolute amounts, just hold down. Let me ask my CFO. You go on with your next question, he'll be pulling out the data. Slippages actual amount.

Prabal: Last quarter, we had some issues with the restructured book, which through slippages of INR 210 crores. How is the trend this quarter? And how do you see that going ahead?

Srikrishnan H: So, as I was telling you that with related accounts, our total restructured book has come down to INR 1,536 crores and without related accounts, it's come down to INR 1,295 crores. Now I think the better part of the restructured book management has happened already. And whatever is left, we are having adequate collateral. So that is something which is not an issue.

Now in terms of the slippages, just to kind of give you the overall number, INR 527.58 crores is the position as of March '24 - for the quarter And INR 1,650.20 crores is for the full year, as against INR 1,836 crores for the previous year and as against INR 587 crores to INR 527 crores for the quarter.

Prabal: So, INR 525 crores for the quarter, slippages?

Srikrishnan H: Yes, approx. INR 525 crores versus the earlier corresponding quarter of INR 587 crores.

Prabal: So, but we were having a run rate of INR 300 crores so last quarter this INR 500 crores also included INR 200 crores slippages from the previous year have you seen similar slippages this quarter as well?

Srikrishnan H: Yes, this is a combined book because what has happened is that this - I'm talking to you, including the restructured book which would have resulted in some. But overall, as I told you that despite this, the reductions, there are some reductions of closer to INR 300 crores as far as that is, I'm only talking about additions and reductions. The addition was INR 527 crores, the reduction was INR 305 crores. So, the net impact is something that you do have.

Write-offs are lesser and the closing balance is not as much as what it used to be earlier. And likewise, on the annual basis also, gross slippage has dropped from INR 1,836 crores to INR 1,650 crores. So, which means that close to about INR 50 crores plus per quarter.

Prabal: Okay. Out of this INR 305 crores, how much would be write-offs and how much would be recoveries?

Srikrishnan H: INR 305 crores is excluding write-offs.

Prabal: Okay. And the write-offs would be how much?

Srikrishnan H: I think INR 180 crores for the quarter.

Sekhar Sridhar Rao: Total of recovery / reduction and write-off is close to INR 500 crores for the quarter.

Prabal: Sir, second question would be if you can provide the exit loan yield and cost of funds for the quarter like what a rate did, we exit the 4Q?

Srikrishnan H: Loan yield is 9.89% for the entire year, and cost of funds is 5.40%.

Prabal: And for the quarter, this would be?

Srikrishnan H: Quarter will be around 5.55% for the quarter on cost of funds and loan yields around 9.75%.

Prabal: Loans yields Q-on-Q has come down, is it?

Srikrishnan H: This is only the last quarter because of the mix of the business a little bit. But the overall for the year, we have maintained it at 9.9%.

Prabal: But in your opening remarks, you mentioned that the growth came from retail and MSME. So Ideally Q-on-Q rate should have improved.

Srikrishnan H: So there's something which you need to understand that the last year, 2/3 of our book comprises, as I said, within the 2/3, 45% is retail and agri. And about 20% is MSME and SME. Now this three are different in nature. Out of that the retail flagship products are housing loan and gold loan. These are the two. Gold is better yield, but gold loan doesn't grow that much. So obviously, we've been calibrating that.

But housing loan is almost like 1/4 of our overall retail assets. So, the rates in home loans right now, as you are aware, the market has been very competitive. So, we also have been doing at 8.6% as a product. But given that, obviously, it is not like the earlier home loans, which have been running at a higher rate. But on a blended basis, we are still good.

Prabal: Okay. So, if this is to continue, then the yield would be either stable or it could further come down under pressure given the competitive project?

Sekhar Rao: On the cost of deposits, we are projecting that we have nearly reached parity. Additionally, we will observe a tapering effect. Previously, we had initiated some high 555-day deposit programs, which are transitioning from headline interest rates to lower rates. Consequently, we anticipate a clear downward trend in interest rates. Moreover, the guidance on the broader market side also indicates this.

Srikrishnan H: Interest rates coming down.

Sekhar Rao: Interest rates coming down. So, we will see improvements in NIM and primarily led by, what we call, moderating cost of deposit.

Srikrishnan H: And also the increase in the loan yields because of a mix that we have been looking at. And as I said to our earlier caller, we are launching a couple of retail asset products, which are for the first time in this bank are going to be unsecured and this would perhaps have a better yield also. Which is not that we won't berserk on the numbers, but at least this is like a good start that we want to do in this area.

Prabal: So, in second question, how will you have other income? If you can break this up into, say, fee income and recoveries, then it would be good.

Srikrishnan H: Other income. Okay. Can we send that to you?

Prabal: Yes, sure you can send that to me. And if the percentage is available but I could not find that in PPT?

Srikrishnan H: One second hold on in fact you say he's calling out here it is there.

Sekhar Rao: INR 1,318.91 crore as against INR 992.58 crore last year.

Srikrishnan H: You got it, Prabal?

Prabal: No, sir.

Sekhar Rao: So, it is at INR 1,318.91 crore as against INR 992.58 crore last year.

Srikrishnan H: Out of that, the breakup you wanted? So the breakup is...

Prabal: Sir, I wanted break up of other income during the quarter 4...

Srikrishnan H: We'll send that to you. Basically, there are 4 headline items there. One is commission and exchanges, other is recovery from write-off accounts. Income from ATM and other channels the miscellaneous etc. And depreciation on investment, which is essentially and trading profits. So we will give you the breakup. We'll send it to you.

Prabal: And then just last question. So, we have been building such a superb team and we're also getting retail heads and wholesale banking heads, how are you attracting these people? And what is their compensation in terms of whether they have been given a swap on how is it like?

Srikrishnan H: So this entire management team that has joined us at least about 6, 7 of them have all come in on a CTC basis. That's one. The CTC comprises of, obviously, fixed and variable. And within the variable about 50% of their variable based on performance would be through grant of shares, which is as part of the existing scheme that we have.

So, it is not that we are attracting people with ESOP. They are all coming in with a very clear opportunity as a target, working with the new management to transform the bank and really pair the path as far as the growth journey is concerned. So, we have done well in terms of attracting the right talent and who are culturally fitting into the bank and working and integrating with our existing team of veterans from Karnataka Bank.

So, if you go to our investor presentation now, you will see that we are almost like a 50-50 from an overall general management perspective in terms of the number of people. We had 2 of our very senior COO and CBO, who's contract is getting over now as of May 31, 2024. We have done some restructuring, and that is how we have presented this experience management where between the existing and the new.

We have been kind of balancing it out. Going forward, as I said, we have already given an offer for head of retail and MSME advances and also head of Retail Collections. So those are all one or two positions that are key and strategic. We've also recruited recently head of Digital under our Chief Digital Officer, who has also come from ex Citi, HDFC and so on. So that way, we have been able to attract talent. And as I said, on the basis of CTC and a mix of variable, which includes the stock but then within the variable.

Prabal: Thank you, sir, and all the best.

Moderator: Thank you. The next question is from the line of Sanjay Shah from Ksa Securities Private Limited. Please go ahead.

Sanjay Shah: Past year has been a really exciting year which we understand from the hardship what you have taken after taking over as a new management. So my question was very broad-based. What changes you have seen in the bank after you coming in. And what you see with this digital support, technology support, bringing in some FinTech partnership? How do you see that our bank is doing from current year onwards?

Srikrishnan H: Thank you, Sanjay, for the compliments. And yes, it has been exciting for all of us because we are not only joined by new management, but the existing management and the entire workforce at Karnataka Bank are quite thrilled and participating actively in this transformation journey. So there are 3 things that we did. One is that we created the headroom as far as capital is concerned.

The second thing that we did was we strengthened the management team. The third thing that we are doing is simplifying and organizing our processes and centralization and all that, which basically includes creating a national back office in Mangalore, which is very good because we've got our infrastructure and people here.

And in terms of expanding our business, obviously, there is a cultural shift, so which is where we are making our entire organization outbound outward looking with the sales orientation and making sure that the sales organization on the sales culture settles in well. Along with that, we also have benchmarked and digitized a lot of products both from a customer benefit as well as internal process on TATs and so on.

So this has been the next progressive thing that we have done. Last but not the least, in addition to increasing awareness and repositioning our brand, we have also attracted numerous partnerships. So especially on the digital and client acquisitions through partners, which are in 3 or 4 different specific areas, specifically on distribution products through insurance and investments and so on, we have four new partnerships.

We have actually done partnerships on insurance, both life as well as non-life and also integrating with them on the digital side. And last but not the least, is the co-lending where we have been very carefully selecting sourcing partners for us with our credit standards related to MSME and impact-based lending.

It is also some on the personal loan side. So we've been calibrating this and testing waters our overall acquisition side of the advances also. So it's a combination of all of these initiatives that we have taken. And we believe that with all this the whole Indian runs this year. And for the following years, we will be able to generate much more in terms of overall volume.

Sanjay Shah: So carry forward our traditional business, we are focusing on some asset origination tie-ups from which we can grow from here like co-lending with Yubi and Northern Arc and all. So we wish you good luck for that, and we also see that exciting time coming for us in quarters to come. So my second question was i.e., can you give us what is the average loan book size for our housing loan average loan book?

Srikrishnan H: So just summarize the earlier conversation, and you wanted to know. We are doing this co-lending selectively. It's not that we are going all out on that. It's just one more avenue for us as well as that business acquisition is concerned, so that we test the waters. Overall, our loan average, I would say that if you take our overall wholesale plus retail and housing, etc. INR 40 lakhs to INR 50 lakhs could be an average per loan ticket size.

But actually, that is to be looked at by segment because by segment averages are very different. Housing loan segment is different. Gold loan is different. Then your big-size corporate loan MSME is different. So we do have the breakup, which we have given in our sectoral asset advances slide in the investor presentation uploaded already.

Sanjay Shah: Yes, I will go through that. So, I can take it for this housing loan, it could be around INR 40 lakhs, INR 50 lakhs?

Srikrishnan H: It will be lesser actually. It will be more like about INR 30 lakhs, INR 35 lakhs because actually in metros, it is higher. But wherever we are operating in mini metros, as you're aware. And that is that where it comes down a little bit.

Sanjay Shah: Thank you sir. Thanks for being here.

Srikrishnan H: Thank you, Sanjay. Bye.

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

Srikrishnan H: I wish to thank the faith that the investment community, capital market community and the institutional investors have reflected on the bank, specifically on the management and the path and the plans that we have been talking about in the market. This is exciting time for us because, one, is the articulation of our strategy but the more important part is execution of our strategy.

So we are on the execution mode right now. Whatever that we needed to do in terms of creating the headroom and putting the right resources and empowering them is something that we have done, we are actually beefing up the technology side to make sure that the architecture and the whole scaling up is something which is possible and all the investments related to that are being made and have been already.

And given this, we are rightly positioned for growth as reflected in the guidance so far in the call. And happy to take on any questions later on, on a one-on-one basis as and when any of the investors would like to. Thank you for your time, all of you, and thank you for taking the trouble to dial-in. Good evening to all of you.

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

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