CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – DECEMBER 2015

Dear Investors/Analysts,

Good Evening everybody and thank you for attending this City Union Bank's earning call of Q3FY 2016. The Board of Directors approved the un-audited financial results today on the 11th February, 2016.

I will discuss the overview and Mr. V.Ramesh, CFO / Mr. S.Sundar (Advisor) will run through the numbers and at the end we can have the Q & A.

Despite Tamil Nadu floods, we could see a reasonable growth. Almost all the parameters for the Q3 are as per our expectations what we shared with you all during earlier conference calls.

We expected a growth rate to be between 12% and 15%. Between 31.12.2014 and 31.12.2015, we have seen a credit growth of 14%.

We expected the slippage ratio for the current year will be between 2 and 2.25%. The annualized NPA slippage for nine months for the current year is 2.08%.

The business growth has resulted in healthy 21% growth in Net Interest Income and 23% growth in operating profit level between Q3FY' 15 and Q3FY' 16.

All the parameters stayed healthy in tune with expectation for Q3 – ROA at 1.50%, Cost to Income Ratio at 41.91%, CRAR under Basel III at 14.63%, ROE at 15.19% and NIM at 3.82%.

We closed Q3 FY16 with `25959 cr of Deposits and `19374 cr of Advances showing a growth of 12% and 14% respectively as compared to ` 23203 cr and `16968 cr as on 31st December 2014.

The operating profit improved by 23% in Q3 FY16 over Q3 FY15 and 19% for 9 month FY2016 as compared with 9 months FY2015.

Similarly, the net profit has recorded a growth of 10% in Q3 FY16 over the corresponding Q3 FY 15 and 12% in the 9 month FY2016 as compared with 9 months FY2015.

The NII stands at Rs. 253 cr for Q3 FY 2016 and Rs. 717 cr for 9 months FY2016 showing a growth of 21% and 19% on Q3 FY16 vs Q3 FY15 and 9mFY16 Vs 9m FY15 basis.

The addition of NPA during the quarter is Rs. 126 cr as compared to Rs. 97 cr in Q2 and Rs. 78 cr in Q1. Though slippage ratio looks elevated for Q3, the slippage ratio for 9 months FY2016 stands at 2.08% (Annualized) which is very well within our estimation of 2 – 2.25% for FY2016. The slippage is more a function of general economic environment. Status quo continues as we discussed during Q2 results. The major addition includes a health care group account amounting to Rs. 51 cr. The account was not in our list. IT attachment stopped their payment cycle, though the company had balance in the account.

We have not restructured any accounts in Q1 & Q2. During the quarter, following the consortium leader we have restructured only one account amounting to Rs.65 cr which was in pipe line during the previous quarter. This pertains to 'Food processing Industry' and exporter of basmati rice account which we have been repeatedly discussing in our con calls. As said earlier, since we have not participated in many consortium and infrastructure loans, we are relatively better off. We hardly have handful of consortiums. Of the accounts, one account which we have been discussing is that of a steel account which is still causing concern has exposure of around Rs. 65 crore. PCR coverage as at 31.12.2015 is 61%.

The balance outstanding as on 31.12.2015 in SMA-2 accounts of over `5 cr as submitted to RBI stands at ` 1032.61 cr which works out to 5.32% of the total loan book. Out of the above outstanding of ` 1032.61 cr that includes all facilities extended to the same borrower, an amount of ` 433 cr are problematic (SMA-2 over `5 cr accounts) and remaining ` 599 cr are regular and are included as per RBI guidelines. If we add unutilized limit and non-funded exposures, the figure stands at `1137 cr.

Even with all these, our expectations on the slippage is that we should have 2 to 2.25% slippage for the current year as envisaged at the beginning of the year which should moderate to less than 2% next year, with the expectations that the economic recovery will firm up by the first half of next Financial Year.

The liquidation of collateral and collecting NPA accounts is taking more time than anticipated. On one side legal proceedings are delaying progress, the poor economic conditions have drained the liquidity out from the market. The collections we anticipated on ARCs are yet to happen. We are taking all efforts under our control to expedite recovery.

During the quarter and first nine months we have not sold any assets to ARC. We are exploring the possibilities of ARC sale this quarter on need basis. No final decision yet.

During the Nov – Dec15, we had unprecedented rains at few districts of Tamil Nadu namely in Chennai, Kancheepuram, Tiruvallur and Cuddalore Districts which had some impact on the units located in these districts. The MSME units had some impact as the machineries were submerged in waters for few days. We have received a representation for restructuring Rs. 25 cr approximately from the borrowers. The Government had declared as national disaster and accordingly some sops will be provided to these units based on RBI guidelines which is still under progress. On the whole we do not see much impact to our borrower's units. The Govt. had extended the time for restructuring up to March 2016. Accordingly, we expect to receive some more request from our borrowers. Based on representations and Govt. guidelines, we may take a call on the affected units.

ROA for Q3 FY 16 stands at 1.50% and for 9 month FY2016 stands at 1.51%. We hope to close the year around the same figures.

NIM for Q3 stands at 3.82% and for 9 months FY2016 is 3.74%. The reduction in cost of deposits happened faster than reduction in yield on advances. Going forward yield will moderate, cost of deposits will stabilize and NIM will stabilize around 3.50% as expected earlier. All figures are in tune with our expectations at the year beginning.

We had consistently maintained cost to income ratio close to 40% as in the past. For Q3 FY 16 the cost income ratio was 41.91% and for 9 months FY2016 it stands at 40.23%. Though it may slightly increase with the opening of new branches, you can see the cost to income ratio to settle around 40% for FY2016. Salary expenses included Rs.14 cr Diwali ex-gratia and hence the increase over Q2.

The main reason for this is digitization initiatives that we have taken so far have started giving results. Steps were initiated to improve internet banking, installation of BNAs / ATMs. As on date we have 497 branches and 1302 ATMs. We have installed BNA in 328 locations (with recycling facility at 220 location).

Because of these initiatives, alternate channel usage has increased to around 80% in Dec' 2015. The best in the industry standard by a few New Gen Banks is at 90%. We have got room for increasing the same by another 5-6%. In other words, alternate channel usage may touch 85-86% in the next FY. It has not only helped in reducing cost to income ratio but has other benefits such as reduced crowd and lower operational pressure at the branches. Excess man power capacity on account of the above initiatives will be utilized for the business development.

We have recently upgraded our mobile banking services with a new app 'CUB m-Bank Plus'. We are in the process of introducing various technology based services like wallets, cardless cash withdrawal facilities through ATMs, credit cards secured by FDs on tie up with master card etc., for this quarter.

We expect some tax reversal in Q4. For perquisite taxes paid by employees on issue of shares, we asked for tax breaks after making full provisions and paying department. Recently court judgements have come in our favour.

To sum up, the general economic environment has not shown perceptible improvement, thus resulting in uncertainties in growth and asset quality. We are hopeful of maintaining the figures as planned and discussed with you earlier. When the growth cycle starts we are confident that we will be better placed given the higher Capital, Branch network and technology to ride on the growth momentum.

Thank you all and

Now Mr. V. Ramesh, CFO will explain numbers. Over to Mr. V. Ramesh

Thank you MD sir. I am Ramesh, CFO.

Good evening everybody and thank you for attending the City Union Bank's earnings call of Q3 FY2016.

Let us get into the details of the third quarter & 9 months results:

In a nutshell, the Bank has shown a healthier growth of 23% in Operating profit in Q3 FY 2016 over 9 m FY2016 the growth was 19%. In absolute terms the Operating profit increased from ` 168 cr to ` 207 cr during the Q3FY16. Similarly for 9 m FY2016 the operating profit increased to ` 609 cr from ` 514 cr for 9 m FY2015.

The Net Profit for Q3 FY 2016 has enhanced by 10% when compared to Q3 FY 2015. In absolute term the Net Profit for Q3 FY16 was Rs. 113 cr as compared to Rs. 103 cr in Q3 FY15. Net Profit increased to ` 332 cr in 9 m FY16 as compared to ` 296 cr in 9 m FY15.

The Net NPA has increased to 1.49% in Q3 FY2016 from 1.36% in Q2 FY2016 (sequential quarter).

Coming to the Business growth, our Deposits have increased by ` 2759 cr from ` 23203 cr to ` 25959 cr, registering a growth of 12% on y-o-y basis.

Similarly, our Advances enlarged by ` 2406 cr from ` 16968 cr to ` 19374 cr translating into a 14% growth.

Thus the total business grew by 13% over the one year period.

CASA has recorded a growth of 24%, in absolute terms by ` 942 cr from ` 3930 cr to ` 4872 cr. The share of CASA in total deposits was 19%, CA portion increased by 26% and SA portion by 24%.

The Cost of Deposits for Q3 FY16 decreased by 50 bps to 7.48% from 7.98% compared with Q3 FY15 due to reduction in the interest rate offered on deposits. Cost of Deposits for the whole of FY 2015 was 8.15% and that for 9 m FY16 was at 7.67%.

The yield on advances for Q3 FY16 stood at 12.67% as compared to 13.08% for Q3FY15. The yield on advances stood at 12.86% for 9m FY16. We expect the marginal decline in the yield in the coming quarters due to decreasing interest rate cycle and stiff competition in the market.

The net interest income for Q3 FY16 stood at ` 253 cr as against ` 210 cr in the corresponding period thereby registering a growth of 21%. The Net Interest Margin for Q3 FY16 stood at 3.82% when compared to 3.48% in Q3 FY15. For 9 months FY16, NIM stood at 3.74% vs 3.45% in the corresponding period last year. We are expecting some shrinkage in NIM as we enter decreasing interest rate cycle and competition. We have consistently maintained the 8 quarter average NIM of around 3.50%.

The non-interest income of the bank in Q3 FY16 was ` 103 cr as compared to ` 98 cr in the corresponding quarter reflecting an increase of 6%. This is mainly on account of refund of Income tax to the tune of Rs.7.95 cr and incentive received from for installation of BNA to the tune of Rs.8.50 cr received during the quarter. The non-interest income for 9 month FY16 increased marginally to ` 303 cr from ` 299 cr in 9 months FY15. There was reduced collection from written off accounts which were largely off-set by the income received from other charges. Further, the treasury profits comprising both domestic and forex segments increased by 3% from ` 87 cr in 9 months FY15 to ` 91 cr in 9 month FY16.

Operating expenditure has increased marginally by 7% in Q3 FY16 to ` 149 cr from ` 139 cr incurred in the corresponding quarter last year. While employee cost increased from Rs 60 cr to 63 cr, other operating expenses increased from Rs 79 cr to ` 86 cr.

The operating profit for Q3 FY16 has thus increased by 23% from ` 168 cr to ` 207 cr in the corresponding quarter. Similarly operating profit for the 9 month FY16 increased by 19% to ` 609 cr from ` 514 cr for the corresponding period last year.

For Q3 FY16, the total provisions made was ` 94 cr compared to ` 66 cr in Q3 FY15. Provision for Bad and Doubtful debts increased from ` 27 cr to ` 52 cr for Q3 FY16. Provision for tax increased from ` 93 cr in 9 month FY15 to ` 117 in 9 month FY16.

PAT for the third quarter thus has increased by 10% from ` 103 cr in Q3 FY15 to ` 113 cr in Q3 FY16. For 9 months FY16, PAT shows a growth of 12% from ` 296 cr in 9M FY 2015 to ` 332 cr.

Return on Assets stood at 1.50% for Q3 FY16 as against 1.54% for the corresponding quarter last year. ROA stands unchanged at 1.51% for 9 month FY16 as compared to corresponding period. The Return on equity stood at 15.19% for Q3 FY16 against 15.72% for Q3 FY 15. Similarly for 9 m FY16, ROE stands at 15.55% Vs 17.59% last year corresponding period.

Cost to income ratio decreased to 41.91% for Q3 FY16 from 45.28% in Q3 FY15. For the 9 month ended FY16 the ratio is 40.23% as against 42.99% for 9 months FY 15.

For Q3 FY16, the gross additions to NPA is ` 126 cr. We have recovered a sum of ` 40 cr in NPA accounts during the quarter. For 9 month FY16, the total slippage has come down to ` 301 cr from ` 316 cr last corresponding period. Accordingly, the Gross NPA for Q3 FY16 stood at ` 460 cr equivalent to 2.37% of Gross Advances Vs 2.12% in Q3 FY15. The Net NPA stood at ` 287 cr which is 1.49% of Net Advances Vs 1.31% in Q3 FY15. Provision Coverage Ratio (PCR) stands at 61%.

We have not sold any assets to ARCs during this quarter. We have restructured only one account during the quarter amounting to Rs. 65 cr and the outstanding restructured assets to

Gross advances stood at 1.63% Vs 1.51% in the corresponding period last year. We have collected a sum of ` 8.90 cr towards repayments in the restructured standard accounts during the quarter. During this quarter no borrowal accounts slipped into NPA from restructured standard assets.

With this I conclude and over to you all for questions.

Questions & Answers:

Edited transcript of the Con-call:

First question is from Mr. Kashyup Zaveri,Capital 72 Advisors:

a) Exposure to top 10 borrowers

b) NIM – guidance

c) Competition from Payment and Small banks

Answer:

a) Our exposure to top 20 group borrowers constitute 12% of gross advances and top 20 individual borrowers constitutes 8.22% to total advances.

b) For the current Q3 the NIM stood at 3.82% and for 9 M period it was 3.74%. Traditionally the NIM ranged between 3.30% - 3.60% for the last 15 quarters. In the increasing interest rate cycle it went upto 3.75% in a quarter and in contraction it went down to 3.30%. On an average we have been able to maintain 3.50%.

c) We expect no major competition / threat from Small / payment banks. Even now also we are facing competitions from similar banks. Mainly the payment banks come out with technology oriented products like Wallets, etc and we are also now geared up to cope up with higher technology offerings and the same will be completed during the current quarter. In so far as Small finance banks are concerned, they can extend loans upto certain quantum and also facing regulatory restrictions. However, we realize this banks will add to completion and we have to run faster.

Next Question is from MB Mahesh, Kotak Securities:

a) There is fall in Agri & Non-agri gold loans and when can you expect growth in this sector?

b) Are we replacing Jewel loan with SME loans?

c) Why there is reduction in provision towards taxation for Q3?

d) Break up of provisions for Q3?

Answer:

a) The fall in gold loans is attributable to stricter and stringent norms like documentation, repayment, etc. from regulatory perspective. Because of these restrictions, the gold loan borrowers are moving away from banks in general. Though the gold prices have started increasing borrowers are not much interested going by the recovery proceedings adopted by banks. We also want to grow in this sector and to achieve the agriculture targets but at the same time that portfolio is still on the declining trend only.

b) If you consider the decline in the Gold loan portfolio, the growth rate of advances will be higher than 14% that we witnessed in Q3.

c) Due to increased market yields and the resultant depreciation in HTM securities coupled with write off made during the quarter resulted in lower tax provision for Q3 and if you consider for 9 months the tax provision was Rs.117 cr Vs Rs.93.50 cr in last year.

d) Provision for NPA – Rs.52 cr, Provision towards taxation – Rs.29 cr, Provision for Standard assets – Rs.5 cr and all others around Rs.7 cr.

Next question is from Mr. Roshan Chutkey, ICICI Pru:

What is the outstanding SR and what is haircut at the time of sale?

Answer:

The outstanding SR is Rs.373 cr and there was no hair cut in the sale except in one account for Rs.15 – Rs.20 crs.

Next question is from Mr. Amit Ganatra, Religare Capital:

a) What is the amount of income tax refund and where it is accounted?

b) In the presentation where it is mentioned?

c) When the economy is not improving and stress is mounting up how you can expect decrease in slippage ratio for next year?

Answer:

a) It was accounted under the head "All other Income" and it is not a part of Net Interest Income. The amount is Rs.7.95 crs.

b) It was shown under other income – others in presentation.

c) For the current year we are expecting the slippage ratio of 2 – 2.25% and going forward for next year it could be around 1.75% - 2.00%. Till FY 2013, our slippage ration was around 1.25% - 1.50%. In FY 2014, it went to 2.85% and for FY 2015 it was around 2.35%. As we have already classified major accounts into NPA and as we are not into infrastructure finance, large consortium lending and power sector, we expect the slippage ratio to moderate around 1.75% - 2.00% for FY 2016-17.

Next question is from Sivakumar, UNIFI capital:

a) What is the breakup of Rs.126 cr in slippage for Q3?

b) What is the reason for increase in employee cost in this quarter to Rs.63 cr from Rs.49 cr in Q2?

c) Even in the Chennai floods the growth rate of advances was 14% whether the same will be higher if there are no floods?

Answer:

a) The major addition in Q3 is from one health care account amounting to Rs.28 cr and together with its group accounts it amounted to Rs.51 cr. All the other accounts are in the range of below Rs.5 cr.

b) The increase in employee cost is due to payment of diwali ex-gratia of Rs.14 cr. Normally, we pay ex-gratia twice in a year – ie in the first quarter and the second at the time of Diwali (either in Q2 & Q3). This year we have paid the same in Q3 since Diwali fell in November.

c) Chennai floods has definitely some impact on the growth of the advances. However, it resulted slow down in recovery process in the flood affected areas.

Next question is from Roshan Chutkey, ICICI Pru:

What is sectorwise yield on advances?

Answer:

For agriculture we charge closer to the base rate and for sectors like real estate the yield is around 14% - 15%. For all other sectors we charge around 12% - 13.50%. Overall our yield on advances is 12.86% for 9 M FY 2016.

Next question is Gaurav Agrawal:

a) What is loan growth target for next 3 years and how you are seeing the impact on operating profit on the same?

b) When the employee bonus has started?

c) How is the competition in Agri Portfolio & SME from other banks?

d) Tax rate for the current quarter is low. Why?

Answer:

a) For the current year our growth projection is 12% - 15% and for the next year it could be from 15% - 18%. We don't want to extrapolate the same for next 3 years. With regards to operating profit we expect the present trend to continue for the next year.

b) Traditionally bonus for Diwali is paid in the second or third quarter. Since 2006, we have started paying a second bonus in the first quarter or the provision made in the fourth quarter of previous year.

c) We have been facing competition from banks like us. While the same is expected to continue we can continue with our growth projections.

d) For Q3 FY 2016 we have provided Rs.29 cr and for the 9 months it amounted to Rs.117 cr. Mainly due to movement in yields and the resultant depreciation in HTM securities which is not reflected in books but allowed under income tax rules, the taxation rate differs from quarter to quarter. However on average basis, our taxation rate works out between 24% - 26%.

Thanks to all!