CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – JUNE 2019

Dear Investors and Analysts,

Good evening everybody, Dr. Kamakodi here.

Hearty welcome to all of you for this conference call to discuss Q1 FY 20 unaudited financial results of City Union Bank. The Board of Directors adopted the unaudited results today at Chennai.

I will brief the overview and Mr. Ramesh, CFO will run through the numbers. At the end we can have Q & A.

Hope you all have received the copy of the presentation.

On the management side, the Nomination Committee of Board held on 17.06.2019 has inducted Sri. T K Ramkumar into the Board. He is a practicing Lawyer in the High Court of Judicature, Madras. He has rich expertise in banking law, civil law, and Intellectual Property Rights. He had earlier served the Board for a full term of 8 years during the period from 2009 to June 2017 and after the cooling period of 2 years he has been inducted for the second term.

As you may be aware, we have our Annual General Meeting (AGM) of the bank scheduled on 29th August, 2019 at Kumbakonam. We invite all the shareholders to attend the Annual General Meeting. The annual report and agenda are already dispatched. Soft copy of the same is made available in our website.

As usual, we are seeking the shareholders approval for an enabling resolution for QIP issue of Rs.500 cr. We have been getting approval for QIP issue every year since FY 2008-09 but used it only once when we went for a QIP in July 2014. The QIP approval is only an enabling resolution. It will be used only on need basis and on available opportunities.

Further, we are also seeking the shareholders approval regarding amendment to Articles of Association of the Bank. The amendments are as a result of either adoption as per the new Companies Act, 2013 or on account of re-numbering of sections of erstwhile companies Act 1956 in the new Act. The changes are available in the AGM Notice as item no. 11.

You might have seen that the bank has made;

- ✓ 16% growth in Deposits
- ✓ 14% growth in Advances, thus 15% growth in Business
- ✓ Operating profit grew by 17% to Rs. 351 crs
- ✓ PAT for Q1 FY 20 increased by 15% from Rs.162 cr to Rs.186 cr
- ✓ Percentage of Net NPA inched up 8 bps from 1.81% as on 31.03.2019 to 1.89% as on 30.06.2019. On absolute terms, the sequential net NPA growth is only Rs.8 crs.

When we shared the outlook for FY 19-20, during the earlier concall in 17th May, 2019 we shared the following with you all;

- ✓ We expect credit growth to be between 18-20% for whole year
- ✓ Slippage ratio to closing advances to be between 1.75% - 2 % for the whole year
- ✓ ROA will be at 1.50 – 1.60% level
- ✓ NIM should have come down many quarters back but not come down yet
- ✓ Cost-to-income ratio will be in the range 42%

- ✓ There will be quarterly aberrations but overall annual figures we expect to be on this line.

This quarter has gone by and large as per our expectations.

Credit growth is recorded at 14% vis-à-vis 15% during Q1 last year. We have negative credit figures generally during first quarter. We have slightly higher unutilized credit figures in Q1 but, still think figures for yearend should be as per expectations we shared during the year beginning.

We had slippage of Rs.199.88 Cr which is 2.48% of closing advances. The spike in ratio was on account of one Educational institution with over Rs. 50 crs exposure slipped to NPA as we indicated during our last con-call. We still feel the annual slippage figure should be between 1.75% and 2% in tune with expectations shared with you all. The incremental quantum in Net NPA was only Rs.8.50 crs when compared to March 2019.

The Net Interest Margin stands at 4.11% compared to 4.40% during Q4 FY 19. It is on expected lines. Part of this can be explained by reduction in average CD ratio. During the Quarter while deposits have increased by Rs.629 Cr, Advances have de-grown, resulting in average CD ratio coming down from 86% in Q4 to 83% in Q1 FY 20.

The recovery of NPA through liquidation of collaterals though slowly improving, it is not yet to meet our expectations. The recovery for Q1 is Rs. 48 crs Cr in live and Rs. 31 Cr in technical write off accounts taking the total recovery to ` 79 crs.

Favorable yield movements in Domestic Treasury has helped us to make Rs.30 crs profit in Q1 FY 20 vs Rs.7 crs in Q1 FY 19. The same for the whole year FY 2019 was ` 33 crs.

During our last concall we informed about completion of resolution in one major SR account for which repayment will commence from 3rd quarter. As you all know top 4 accounts take care of around 90% of our total Security Receipts. Looks like the resolutions of all the top 4 accounts are almost completed and cash has started coming in all the four accounts. We have received a sum of Rs.10.48 Cr during Q1 FY 20 and since the repayment terms goes up to 2022, we expect there will be cash flows continuously. We have received a lumpy sum (Rs. 20 crs) in July 2019 and the balance will be settled within the year.

Based on the receipts of cash from accounts held in SR, valuation done by rating agencies and repayment terms we have reversed an amount of Rs.24 Cr in Q1 FY 20.

We are in the process of making necessary tie-ups / agreements with Insurance and Mutual Funds distribution with companies like Star Health, Integrated Enterprises, BSE Star Mutual Funds, etc. We don't expect any spectacular increase in third party distribution immediately but we feel these are needed in the long run.

I received some phone calls asking me for my opinion on possible economic down turn affecting the performance of our bank. The concern understood to have been made based on opinions shared by few other banks.

So far whatever we feel / see it is not something too different from past trends. May be this way: Please remember what we shared about conditions of economy a few years back when I said "My friend's friend is in trouble". If things get better, it is okay. If things get down and down, my friends may get affected and it could affect me later. But now things what we see / feel is not different from what we shared during year beginning. There could be quarterly aberrations. What I have to share is, even now, when I am asking our customers to use restructuring as per RBI terms, we received request only for 5 accounts to the tune of Rs. 7.71 crs in this quarter and the RBI has given time up to March 2020. Still we are requesting our eligible customers to use the restructuring facilities if we see something turning bad, will share with you all in next quarter con call.

We discussed about a stressed paper unit a couple of years ago with over Rs. 50 crs exposure. It got out of watch list due to some capital infusion. It is showing some signs of sickness. The promoters are working for sale of non core assets and it may survive. Even if it becomes NPA, we still believe that, year as a whole slippage ratio will be between 1.75-2% of closing advances apart from quarterly aberrations, if any.

Regarding SMAs, the pattern is in line with our usual track record and as we have been informing in our concalls there is no need to worry about this figure.

The core profitability and efficiency ratios like ROA, ROE, Cost to Income ratio and the NIM are maintained and closer to industry standards. ROA is 1.63%, ROE at above 15%, Cost to Income Ratio is at 39.43% due to higher profit made in Treasury. NIM is still maintained above 4% (4.11%).

We have planned to open around 50 branches/outlets during the year and opening will commence from Q2 FY 20 onwards.

With this I conclude my speech and our CFO Mr Ramesh will explain numbers.

I am Ramesh, CFO. Good evening everybody and thank you for attending the City Union Bank's earnings call of Q1 FY 20.

Let us get into the details of the first quarter results:

The Operating profit of the Bank recorded a growth of 17% in Q1 FY 20 over the corresponding period in Q1 FY 19. In absolute terms the Operating profit stood at Rs.351 cr as against from Rs. 299 cr.

The Net Profit for Q1 FY 2020 has increased by 15% over Q1 FY 19. In absolute terms the net profit increased to Rs.186 cr from Rs.162 cr.

The Net NPA increased by 8 bps from 1.81% in Q4 FY 2019 to 1.89% in Q1 FY 20.

Coming to the Business growth, our Deposits have increased by Rs.5,480 cr from Rs.33,597 cr to Rs.39,077 cr in Q1 FY 20 thereby registering a growth of 16% over the corresponding Q1 2019.

Similarly, for the quarter ended 30th June 19, our Advances increased by Rs.4,014 cr from Rs.28,215 cr to Rs.32,229 cr translating into a 14% growth over the corresponding Q1 2019. Thus the total business grew by 15% from Rs.61,812 cr to Rs.71,306 cr on y-o-y basis.

CASA has increased by 14% in absolute terms by Rs.1123 cr from Rs.8,038 cr in Q1 FY 19 to Rs. 9,161 cr in Q1 FY 20. The current account portion has increased by 3% and the savings account portion by 19%. The share of CASA to total deposits was 23%.

Cost of Deposits for Q1 FY 20 has increased by 12 bps to 6.27% from 6.15% compared to Q1 FY 19.

The Yield on Advances for Q1 FY 20 has improved to 10.97% as compared with 10.86% in Q1 FY 19. For the sequential quarter it was 11.07%.

The interest yield on Investments remain flat at 6.93% for Q1 FY 20 as compared to 6.91% for Q1 FY 19. For Q4 FY 19 it stood at 6.96%.

The Net Interest Income for Q1 FY 20 stood at Rs.417 cr as against Rs.375 cr in the corresponding period in FY 19 thereby registering a growth of 11%. The Net Interest Margin for Q1 FY 20 stand reduced to 4.11% vis-à-vis 4.24% in Q1 FY 19 in line with our expectations.

The non interest income of the Bank in Q1 FY 20 stands improved to Rs.163 cr as compared to Rs. 129 cr in Q1 FY 19 on account of improvement in treasury income as also collection from written off accounts which remain doubled.

Other operating expenditure has increased by 12% in Q1 FY 20 from Rs.204 cr to Rs.229 cr. The increase is on account of normal rise in expenses like Salary, Rent, Insurance, Repairs and maintenance, etc. Out of the above, the establishment expenses (salaries) increased from Rs. 87 cr to Rs.100 cr in Q1 FY 20.

The operating profit for Q1 FY 20 has improved by 17% to Rs. 351 crs from Rs.299 crs.

For Q1 FY 2020, the total provisions have increased by 20% from Rs.138 cr to Rs.166 cr due to ageing of NPA. The details of provision made for the Q1 FY 2020 is as follows;

	Rs. in crs
Provision for NPA	144.00
Provision for Income Tax	50.00
Provision Written back (Depreciation on Investments)	(24.00)
Standard Assets provision	(3.75)
Others – Country risk	(0.50)
Total	**165.75**

Thus, total PAT for Q1 FY 20 increased by 15% from Rs. 162 cr to Rs.186 cr.

The Return on Assets (ROA) for Q1 FY 20 stood at 1.63% Vs 1.64% in Q1 FY 19. The Return on Equity stood at 15.22% for Q1 FY 20 as against 15.32% for Q1 FY 19.

Cost to income ratio stands slightly dipped to 39.43% for Q1 FY 20 from 40.58% in Q1 FY 19 on account of increase in treasury income.

For Q1 FY 20, the additions to NPA account was Rs. 199.88 cr vs Rs. 125.86 cr in Q1 FY 19 with the slippage ratio at 2.48% for Q1 FY 20. PCR for the quarter stands at 65%.

During the period the bank had restructured 5 MSME accounts amounting to Rs. 7.71 crs as per RBI guidelines dated 01.01.2019. In Q1 FY 20, 3 account got closed and one account had slipped to NPA from restructured standard category amounting to Rs. 0.32 crs. The total restructured standard advances currently stood at Rs. 64 cr which is 0.20% of our Gross advances.

Though we have not sold any assets to ARC during the period, we had recovered an amount of Rs. 10.48 crs in existing SRs. The outstanding SRs as at the end of 30th June, 2019 stands reduced to Rs. 313 cr.

With this I conclude and over to you for questions.

Q & A – 1QFY20

Jai Mundra, B&K Securities

Ques: What is your take on MSME stress? Any exposure auto ancillaries? The exposure is not substantial, still any early signs? Also, is the environment conducive to growth? MSME circular, all large corporates need to pay within 45 days to MSME–Any positives from that? SMA details? Our treasury gains were high despite small AFS book.

Ans: Been hearing many things from different sources. No incremental problem. We are closely monitoring the situation. Things are not incrementally bad from what we saw in 4QFY19. Even after requests on restructuring which was allowed by the RBI, which implies the situation is not as bad as it seems. The repercussions are fairly small and the exposure is not in any stress. Not facing any issue to bring down growth rate guidance. As of now, no view to bring down the growth of advances. The opinions are already there on MSME Act, various measures are already existing but MSMEs do not have the muscle to fight against large corporates. As I am repeatedly telling, I don't want to disclose SMA data and we strongly believe on the slippage ratio front and it will be 1.75%-2% on closing advances for the full year as per our earlier guidance. The yields were low, giving us the opportunity to book profit in HTM book as well.

RenishBhuva, ICICI Securities

Ques: What is the reason for low tax rate at 21% which is the lowest in many quarters? 70% growth comes from Tamil Nadu. Is it faring better than rest of India? How do we see the situation?

Ans: We are claiming both Provision for rural branch advances u/s 36(1)(viia) and write off on Non Rural bad debts of IT Act, 1961. But the Assessing Officer questioned our claim and disallowed. But ITAT favoured our claim and allowed on our behalf. So, we have used some of the earlier years provisions released. On the growth front, there are macros like slowdown in GDP etc. If you look closely, problem coming from troubled corporates are not where we have exposures. Since we have not lent to them, we are better off. The worry for banking system from the slowdown is only a fraction of the problem coming from troubled corporates.

Gaurav Jani, Centrum Broking

Ques: Any provisioning on paper account that came out of stress? Any dispensation taken post GST to slip in this year?

Ans: The paper account is good. The question of provision does not arrive unless it becomes an NPA. I do not see anything materially different from what we have seen earlier. A similar situation occurred in 2008 post Lehman brothers crisis where similar dispensation were given by the RBI. If they expect any cash flow issues, we ask them to come to us in advance for any breather in line with RBI circular.

RohanMandora, Equirus Securities

Ques: Any colour on slippages? One was educational institutions account, what about others? Any agri slippage in this? Whats the recovery rate in the recovery from written off accounts?

Ans: Multiple accounts of less than Rs.10cr slipped across various sectors apart from the major one from Educational institutions. No major stress in agri portfolio. Recovery rates were 25-30% and in general we are aiming for 50% which is the standard recovery rate we have seen in written off accounts.

Akash Dantanni, HDFC Securities

Ques: What is the pricing you maintain on loans?

Ans: We maintain 10.75-11% as the interest on advances on average. Deposits are also getting priced lower, thus NIM to remain 4.1% +- 20bps.

ManishaPorwal, Taurus Mutual Fund.

Ques: How do we see our CASA going forward?

Ans: We are not strategizing into CASA. We have not done it before and we are not going to do it as it has not fit in our scheme of things. We have space to raise Rs30bn advances without raising any deposits. We don't expect to change from what we have done so far.

Harsh Shah, ICICI Direct.

Ques: Any interest reversals during the quarter wrt Educational institutions?

Ans : Rs1.75 cr were the reversals during the quarter on educational institution.

Bhavik Shah, B&K Securities

Ques: NIM guidance for the full year?

Ans: We are trying not to breach 4%. Historically we have done 3.4%-3.5% in the last 10-15 years. Currently we are ahead of that. Will try to maintain the NIMs at the of current level +-20bps.