"City Union Bank
Q4 FY2018 Results Conference Call"

May 24, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the City Union Bank Q4 FY2018 results conference call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Ravi Singh from Ambit Capital. Thank you and over to you Sir!

Ravi Singh: Thank you and Hello everyone. I welcome you all on this results call of City Union Bank. On this call, we have Dr. N. Kamakodi – MD & CEO of the Bank and Mr. V. Ramesh – CFO. Thank you Sir for this opportunity of hosting you on this call and over to you now to take us through the bank's performance during this quarter and how do you see the year ahead.

N. Kamakodi: Thank you Mr. Ravi Singh. Dear investors and analysts, hearty welcome to the conference call on the annual financial results for the FY2017-2018 and Q4 of FY 2018 of City Union Bank. The board of directors approved the audited results today. I will first brief the annual results and our CFO, V. Ramesh, will share with you the details.

As you might have seen the FY2017-2018 was difficult year for the entire banking industry. The Q4 was particularly tougher, we could hardly see handful of public sector bank showing profits in the Q4 even for the whole year while we could see even some large private sector banks either showing decreased profit or even loss in a case.

In this background by God's grace CUB could not only see 17% growth in credit, we could also see about 18% growth in the profit after tax.

Return on assets seeing improvement from 1.5% to 1.6%, return on equity marginally increasing from 14.26% to 15.37%. Annual net interest margin expanding from 4.17% to 4.42% and the cost income ratio decreasing from 40.94% to 38.46%. Net NPA marginally decreased from 1.71% on March 31' 2017 to 1.7% on March 31' 2018

Despite the fact that we have also made substantial provision of Rs.85 Crores for the SRs in the current financial year and also about Rs.23 Crores, Rs.24 Crores provision for the cyber attacks and other related contingencies. When we started the financial year during the conference call on May 29, 2017, we shared with you all the following expectation for FY2017-2018, we expected the advance growth could be between 15% and 18% for the FY 2017-2018. We expected the slippage of NPA with closing advances to be between 1.75% to 2% for the FY2017-2018, we also express the confidence that we will be maintaining the ROA and ROE figures closer to the tough quartile in the banking industry while there could be some pressure on the net interest margin. We also shared there could be some profitability pressure on operating profit because of the possible nonavailability of profit booking opportunities particularly in treasury book and because of the GST. Against these expectations we close to the financial year 2017-2018 was 17% growth in advances. Our slippage ratio to closing advances for the whole year FY2017-2018 is 2.04%, which is about 4-basis point more than our expectations. The actual recovery of NPA is sum of live plus technical rate of accounts for FY 2016-2017 was totaling to about Rs.193 Crores comprising of about Rs.146 Crores from the live accounts and about Rs.47 Crores from the recovery of the technically written off accounts. While the actual recovery for the FY2017-2018 it has improved with a total about Rs.276 Crores comprising of about Rs.205 Crores from the live accounts and about Rs.71 Crores from the technically written off accounts, which means that some improvement in the recovery we could see.

Going forward for financial year 2018-2019 we expect the growth rate of advances to be between 18% and 20%, there are calls why we are not able to have 25% to 30% growth rate and all similar to some of the other banks have performed. We are very clear that let us say we are conservative and we are cautious so we go step by step depending upon the opportunity available, we may accelerate the growth rate and all as we get well into the financial year. But on as is where is condition it looks this will be our expectation of growing about 18%, 20% for the current financial year. Though we may be trying to accelerate it, but on as is where is condition this seems to be the expectation.

The slippage ratio of the closing advances between 1.75 and 2%. Though we expected margins to contract in the FY2017-2018 it has not happened to that extent we expected, but the margin contraction risk is very well exist on the current FY 2018-2019, what is the quantum and how quicker it would happen and all, we have to see as we enter into the year, but whatever risk we anticipated at the year beginning last year still exists at this point of time, we are also keeping our fingers crossed and waiting to see how things are happening.

We booked about Rs.108 Crores in the FY2016-2017 about Rs.94 Crores in the FY2017-2018 and profit from the domestic treasury because of favorable interest rate movement. In fact we booked profit from the HTM book also last year. The calls whatever we took during the Q2 and Q3 proved right subsequently when the 10-year bond yield increasing and those opportunities we just elaborated. We do not expect that much opportunity to exist in the current year because of this expected margins contraction and nonavailability of opportunities to book profit from the government securities, there is going to be pressure on the operating profits growth.

We are expecting that we should still be working towards a decent backdrop with proper or better NPA management particularly controlling the slippages of NPA and also improving the NPA recoveries, which look slightly improving. In other words NPA management is going to play crucial role in maintaining the profitability particularly the recovery to maintain the profitability growth for the FY2018-2019. We have reasonable confidence at this point of time that we should be able to maintain PAT growth and also able to maintain a decent numbers in terms of ROAs and ROEs. As you all know we had a major cyber attack in our ATM networks through which about Rs.31.58 Crores were taken out of ATMs in 20 countries during the last week of December. We had a cyber insurance cover of about Rs.25 Crores against which we have made a provision of about Rs.7 Crores in the Q3 FY2018. Later we received about Rs.5 Crores through the cash back, the payment aggregator and payment systems they gave Rs. 5 Crores back. The process of insurance claim settlement is in progress it may take a few months as it has to go through a process.

You may also remember we had a cyber attack in our network in the month of February. Legal actions coupled with our efforts through diplomatic channel with support of Ministry of External Affairs through embassy os under progress to repatriate the money in Turkey is under progress while actions are also underway to the recover $1000000 that went to China. We have made a provision of about Rs. 6.6 Crores towards the same. In addition to this, we have made Rs.10 Crores of additional provision in Q4 as a contingency measure, which we hopefully may not utilize, but as a matter of abundant cash, we have made an extra provision of Rs.10 Crores as a matter of future contingencies.

During the year we have not restructured any accounts and also there were no ARCs sale, year as a whole we made about Rs.85.5 Crores towards the provision for SR. Current outstanding of SR is about Rs.340 Crores against which is the provision held is about Rs.132 Crores. There was about Rs.5.9 Crores of redemption of SR in the FY2017-2018 and we expect further improvement in the collection I mean we have four major accounts, which are contributing about 75%, 80% of our total outstanding SR of which two accounts already resolution is over and annual repayments are coming based on the schedules accepted. We expect the others to get resolve before the end of the current year and things would improve. We have also maintained the stand that we will be increasing the provision coverage for SRs also in the future. We have opened by 50 branches or outlets during the year, taking the total branch network and outlets to about 600 and our 600th branch was opened at Udaipur, Rajasthan on March 24, 2018. Of the branches opened during the FY2017-2018, 10 were banking outlets handled by the correspondence based on the latest RBI circular.

We have also planned to open about 50 to 75 branches or outlets during the FY2018-2019. As informed during the earlier call, we do not have requirement of reporting divergence for the FY2018. As RBI reported divergence was well within 15% norms as per the regulations. We were one of the few banks who could have divergence well within this norm and well. So we pray almighty that this trend should continue for the current year also. This is something which you cannot fully anticipate because there are a lot of subjective items in that. As done for the last year, this year also the board has recommended a cash dividend of 30% that is 30 paisa for shareholder. The board has also recommended to allot bonus shares to existing shareholders at the ratio of 1 share for every 10 shares held and subject to the approval of shareholders. The 30% dividend is payable on the enhanced equity after the capitalization of reserves as mentioned above.

To sum up, our FY2017-2018 had been a decent year except the fact that banking sector went through a lot of turmoil. We expect 2018-2019 to be much better, though we expect operating profit growth to be flat or may not be having much growth because of the reasons which I already explained. Still I expect that there has to be about 18% to 20% credit growth rate for the current financial year, slippage ratio between 1.75% and 2% rates. ROA should be between 1.50 and 1.60 and ROE around 15% of that. Cost to income ratio will be at the elevated level because the other income like treasury income may not be available at this year and there could be increase, we are expecting the cost to income ratio to be in the range of between 42% and 44% and still with stress on the growth rate of operating profits, we are by god's grace reasonably confident that we will be able to show the PAT growth at a stable level including the business growth, which mainly will be coming because of the better NPA management for which signs are pretty much visible. The opportunities in the extra growth or improved growth, we had 20% credit growth. If possible if we are able to see things getting better for which, it s not that we will be restricting the growth to 20% and that we do not want to see the growth rate beyond 20% but as we have been maintaining in the past as a conservative bank, we will always look into this opportunity, they have to be well within our risk appetite and the policy growth should be excellent. The extra opportunities may be coming because the public sector banks many of them are through PCAs and growth opportunities will be there. We are open to that. We will be keeping our eyes and ears open in the market and depending upon their opportunities, we will be trying to make the extra push, but at this point of time on as is where is condition, the expected growth rate is between 18% and 20% debts and once again we will strive to protect our profitability growth rate proper focus on NPA management by both controlling the slippage and also improving the recovery of NPAs by liquidation of collaterals and other things. With these words, I was requested our CFO, Mr. Ramesh will explain the quarterly and annual numbers in details after that we can get into the question and answer sessions and we will answer your questions to the extent possible. Over to Mr. Ramesh.

V. Ramesh: Thank you M.D. Sir and I am Ramesh, CFO. Good evening everybody and thank you for attending the City Union Bank earning call of Q4 FY2018 and for FY2018. Our board has adopted the Audited Financial Results for FY2018 today, the details of which have been already updated in our website, published and circulated.

Now let us get into the details of the Q4 and Yearly result. The bank has shown a growth of 19% in operating profit in Q4 FY2018 over the corresponding period and for the FY 2017-2018, the growth was 22%. The Net Profit for Q4 FY2018 & FY2018 has enhanced by 18% when compared to corresponding period of last year. The Net NPA has decreased by 4 basis points sequentially to 1.70% for Q4 FY2018 from 1.74% in Q3 FY2018.

Coming to the business growth, our deposits have increased by Rs.2737 Crores from Rs.30116 Crores to Rs.32853 Crores in FY2018 thereby registering a growth of 9%. Similarly advances increased by Rs.4126 Crores from Rs.24112 Crores to Rs.28239 Crores translating into 17% growth. Thus the total business grew by 13% to Rs.61091 Crores for FY2018 from Rs.54228 Crores last year.

CASA has increased by 13% by Rs.918 Crores from Rs.7039 Crores to Rs.7957 Crores. The share of CASA in total deposits was 24%. While CA portion increased by 16%, SA improved by 12%. The cost of deposits for FY2018 decreased by 53 basis points to 6.29% from 6.82% compared with last year. Cost of deposits for Q4 FY2018 was 6.22% versus 6.62% in Q4 last year.

The yield on advances for FY2018 stood at 11.46% as compared with 12.10% in FY2017 due to stiff competition prevailing in the market. For Q4 FY2018 the same has been stood at 11.19% versus 11.86% during the last quarter. The interest yield on investments has decreased by 28 basis points to 6.95% for FY2018 as compared with 7.23% for FY2017 and in Q4 FY2018, it decreased by 30 basis points to 6.90% from 7.20% in Q4 FY2017.

The net interest income for Q4 FY2018 stood at Rs.368 Crores as against Rs.311 Crores in the corresponding period thereby registering a growth of 18%. The NII for the whole FY2018 grew by 19% from Rs.1199 Crores to Rs.1430 Crores. The net interest margin for Q4 FY2018 stood at 4.36% vis-à-vis 4.20% in Q4 FY2017 and for the whole FY2018 net interest margin stood at 4.42% as compared to 4.17% for FY2017.

The other income of the bank in Q4 FY2018 decreased marginally by Rs.6 Crores to Rs.120 Crores as compared to Rs.126 Crores mainly on account of non-availability of IT refund and reduction in profit from trading of domestic securities as like Q4 FY2017 last year. However, for the whole year the same has increased by 10% to Rs.532 Crores versus Rs.484 Crores last year. This was as a result of improvement in bank guarantee commission, recovery from technically written off accounts incurred from sale of PSLC that is Micro & General and securities trading.

Operating expenditure has increased by 3% in Q4 FY2018 from Rs.189 Crores to Rs.193 Crores whereas for the whole year it rose from Rs.689 Crores to Rs.755 Crores registering an increase of 10%. The increase was on account of normal increase in expenses like Rent, Electricity, Insurance, Repairs & Maintenance that is AMC charges, general repairs, electrical works in branches etc.

Thus, the Bank has recorded a growth of 19% in operating profit in Q4 FY2018 over the corresponding period of 2017. In absolute terms, the operating profit increased from Rs.248 Crores to Rs.294 Crores. The growth in operating profit for FY2018 was 22% higher from Rs.994 Crores to Rs.1208 Crores. The operating profit to NII constitutes 84%.

For Q4 FY 2018, the total provisions had increased by 20% that is from Rs.119 Crores to Rs.142 Crores. The total provisions for FY2018 were increased by 25% from Rs.491 Crores to Rs.616 Crores. We have provided Rs.56 Crores towards taxation in Q4 FY2018 as against Rs.47.50 Crores for the corresponding period on account of improved profit and for FY2018 the same was Rs.198 Crores as against Rs.190 Crores last year. Tax provision to profit before tax in FY2018 was at 25% and for Q4 FY1018, it was 27%.

We have not availed the dispensation provided by Reserve Bank of India in spreading the provision for mark to market on investments held in AFS and HFT category for the quarters ended December 31, 2017 and March 31, 2018 equally over four quarters. We have provided the same in the respective quarters. Thus the details of provisions made during the quarter Q4 FY2018 is as follows; Provision for NPA is Rs.55.00 Crores, Provision for Income Tax is Rs.56.00 Crores, Provision for standard assets Rs.0.40 Crores, Provision for depreciation on investments that is for SRs Rs.14.75 Crores, Provision for other losses is Rs.16.00 Crores, thus total Rs.142.15 Crores.

The details of provision made for the FY2018 is as follows; Provision for nonperforming assets Rs.303 Crores, Provision for Income Tax Rs.198 Crores, Provision for standard assets Rs.1.50 Crores, Provision towards depreciation in investment including SRs Rs.85.50 Crores, for shifting of Investment is Rs.10.24 Crores, Provision for other losses Rs.24.71 Crores. All other provisions, FITL is negative Rs.7.20 Crores, thus totaling Rs.490.97 Crores.

The net profit for the Q4 thus has increased by 18% from Rs.129 Crores to Rs.152 Crores. For FY2018, the same has increased by 18% to Rs.592 Crores from Rs.503 Crores last year. Return on assets for the year ended FY2018 stands higher at 1.60% versus 1.50% in FY2017 and for Q4 FY2018 the same was 1.58% versus 1.50% last year. The return on equity marginally increased at 15.37% for FY2018 as against to 15.26% for FY2017 and 15.16% for Q4 FY2018 vis-à-vis 14.97% for Q4 FY2017.

Cost to income ratio declined to 38.46% for FY2018 from 40.94% in FY2017 on account of higher other income due to sale of PSLC, income tax refund, BNA incentives coupled with treasury profit. Similarly the cost to income ratio stood at 39.67% for Q4 FY2018 as against 43.25% last year Q4 FY2017.

The gross NPA ratio for Q4 FY2018 decreased sequentially to 3.03% from 3.30% in Q3 FY2018. Likewise the net NPA to net advances decreased by 4 basis point that is from 1.74% in December 2017 to 1.70% in March 2018. We have not restructured any accounts during the quarter and the outstanding restructured assets to gross advances stood at 0.03% versus 0.56% in the corresponding period last year. We have collected a sum of Rs.8.90 Crores towards repayments in the restructured standard accounts during the year FY2018. During this quarter, two borrowal accounts slipped into NPA from restructured standard assets amounting to Rs.1.50 Crores. During the year we have not sold any assets to asset reconstruction companies. With this I conclude and over to you for questions. Thank you all.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Kashyap Jhaveri from Emkay Fin Capital. Please go ahead.

Kashyap Jhaveri: Thank you very much Sir for the opportunity and congratulation for good numbers.

Question No.1: On the dividend side, you have declared a dividend of 30 paisa per share. Last year also that was the same number. Going forward, what could be the dividend distribution policy?**N. Kamakodi:** On the dividend question, when we give it out as dividend we have to go for frequent capital raising. We used to give good amount of dividend particularly when the price to book valuation was lower. In fact, couple of years back suggestions came in the Annual General Body Meeting that we should give more dividend and frequently come out with rights issues. We concurred with the view to a greater extent by reducing the dividend payout and came out with whatever small bonus, which can be recognized as a proxy for the dividend. It is with that intention we have changed and tried to balance various stakeholders' interest and requests based on which we have arrived at this combination. This will go for a few more years and it could be subjected to scrutiny every year and depending upon the conditions at that point of time, we should be in a position to take a call.

Question No.2: On the slippages for the full year, we had Rs.575 Crores of slippages. For FY2019 would we stay below that number given that most of the pain here is behind in terms of systemic issue?

N.Kamakodi: If you look at our track record upto FY 2013, we used to have about 1.25% to 1.5% of the closing advances as our annual slippage and the recovery will be about 70% to 75% of that and we will be having credit cost of about 40-50 basis point. In FY2014, slippages as a percentage to closing advances doubled to about 2.8% and moderated to 2.3%, 2.1% and 2.01%.We expected the number to be between 1.75% to2% for FY2017-2018, but it ended up about 5 basis point more than what we anticipated in the year beginning. We hope in the current year, we should be having it between 1.75% and 2%. On the other hand , the recovery has shown substantial improvement with recovery amounting to ₹193 Crores from live and written off accounts . This year that number has increased substantially to about Rs 276 Crores. We expect the recoveries to stabilize and we are able to see a good amount of improvement in terms of the collaterals getting auctioned. Definitely, we see things are getting better and that should be helping us in the current year.

Question No.3: If you could throw some light on the drivers because the growth has been very strong about 17% for full year.

N.Kamakodi: Basically our other income is a combination of commission, exchange, brokerage, fees which has come from credit growth, opportunities in treasury, which is a function of the favorable interest rate movement, forex rate movement, recovery from the written off accounts and other miscellaneous income put together. There could be variations depending upon the interest rate movement and opportunities available at that point of time. So, the growth rate of the other income has by and large followed the growth rate of the business with some plus or minus. As Mr.Ramesh was telling we had some component of profit booked from the treasury and IT refund. Basically, we look at what proportion of the net interest income is getting converted as operating profit. In other words, our other income roughly takes care of about 70% to 75% of other non-interest expenditure and effectively about 25% to 30% of net interest income is getting translated as operating profit. This particular composition favours well with most of the banks even in the top quartile and this is how things will be moving and there will be aberrations as well.

Question No.4: On interest income, March quarter interest income is actually lower than the December quarter, though there has been a loan growth during Q4. Is this a normal Q4 phenomena or is there any significant reduction in the yields in this quarter?

N.kamakodi: Interest on loans was ₹723 Crores in Q4 as compared to ₹724 Crores in Q3 despite growth in loan portfolio. This is due to some amount of adjustment on account of interest reversal for the NPA slippages. We had about Rs.16 Crores incremental slippage in Q4 compared to the Q3 which had an impact on Net Interest Income and to some extent it is also a function of average advances and average yield.

Jhanvi Goradia: Hi congratulations Sir. Just extending the previous question on slippage. Last year when you gave the guidance of 1.75%-2%, we had a couple of accounts in watch list and also the restructured book was significantly higher than what it is today. So is there any specific reason or is that due to RBI guidelines., I am assuming some of the stress would have been recognized in this quarter. So are there any more additions to watch list or why is that this slippage guidance is still 1.75%-2%?

N. Kamakodi: **E**ven in best of the times and the best of the performance in the economy, the range of the slippage used to be around 1.5%. When we have issues in the macro economy both in terms of the growth and also in terms of the quality the slippage is likely to be on the higher side. Though we do not have any big accounts over Rs.50 Crores we will always have issues in some accounts leading to increase in slippages, but we cannot be sure that nothing will be coming in the next three or four quarters. So these expectations are based on the past track record of how things happened where even at the best of the times when it is around 1.5% and having an expectation between 1.75% to 2% at the current general economic performance is something reasonable.

Jhanvi Goradia: Okay sure Sir and any guidance on credit cost that you would like to give for FY2019?

N. Kamakodi: No, as you see I have given you the broader numbers. This credit cost is nothing but the final provisions you make which also depends upon the regulatory requirements that keeps changing from time to time like provision for NCLT cases or provision for the restructured accounts etc., .So by and large it is mainly depending upon the situations despite plans. Balance sheet management factors will also be playing a role. Total NPA provision for the year as a whole is about ₹303 Crores as compared to ₹251.50 Crores for 2016-2017 . My expectation is that it should not be crossing the current year's figures, but it is purely judgmental. It depends upon various unknown factors. So I have given you the expected slippage. You can make your own intelligent guesses.

Jhanvi Goradia: Sure Sir. Thank you so much and good luck.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir I see the agri loan growth during the year is down 6% year-on-year so just wanted to get how was your PSL achievement on the agri and are we looking to project over PSLC segment?

N. Kamakodi: Yes in fact we had surplus in micro credit & general category in priority sector lending and shortage in the agricultural credit. We sold the surplus and bought some certificates to meet PSL in agricultural credit. Net on net, we had about Rs.16 Crores profit last year.

Rohan Mandora: And Sir like what kind of PSLC fees can we expect for the next year, how are we placed right now there?

N. Kamakodi: Once again it all depends upon the decisions we take as we move forward in these particular areas. It is always better for the banks to have their own agriculture and own priority sector and we also have reasonable number of your rural branches.I And there are a lot of interest subvention scheme which are given by the central government to the farmers on farm loans and, only recently we started offering those benefits to the farmers through our rural branches. So we expect the agricultural growth particularly through the gold loan and other crop loan in the current financial year to be substantially better for FY2018-2019 compared to the FY2017-2018. It should be also giving some incremental profit. The final shortfall on agricultural target achievement was about 3% to 4% and the substantial portion of that we should be covering in this year.

Rohan Mandora: And Sir like during the year that employee expense growth was very contained at 6% now going into FY2019 how can we expect the employee cost shaping up?

N. Kamakodi: In fact you might have also seen some amount of drop in the employee cost for the Q4 on a sequential basis, it is mainly because of the interest rate increase, the provision requirement on leave encashment and actuarial calculations got substantially reduced which gave us some benefits. Our settlement with the Union & Association happened about one-and-a-half years back and as we are not part of IBA settlement , we do not expect any increase in salary now. But the annual increase on the existing salary will be about 7% and there could be another 1% or 2% marginal increase because of the increase in the head count. So this is broadly the trend with which the employee salary will be moving forward.

Moderator: Thank you. The next question is from the line of Mr.Manish Oswal from Nirmal Bang, please go ahead.

Manish Oswal Thank you for the opportunity…

Moderator: Mr Manish are you there connected. It seems there is no response from the line. WE will move the next question that is from the Rinesh Bua from ICICI Securities. Please go ahead.

Rinesh Bua: What explains the sequential increase in tier 1 ratio?

N. Kamakodi: As per the regulations currently in place, when you make your quarterly profits,the same could be taken to Tier I Capital only if it is audited. For the first three quarters, since figures were not audited, the profits will not be considered for the Tier I capital. Since you have audit towards the end of the Q4, whatever profit you made for all four quarters is taken to Tier I and that is why there is improvement in Tier I Capital.

Rinesh Bua: So every year fourth quarter we have this sharp increase in tier 1 is it?

N. Kamakodi: Yes. However, earlier in few years, we had half-yearly audit and in those years we were able to take that half yearly profit figure for the Tier I.

Rinesh Bua: Okay good enough Sir. And Sir second question was on CASA, so generally last quarter every year, we see a sharp increase in the CASA flow even in this quarter, but it seems that our current account growth of 22% quarter-on-quarter seems bit high, so what is the sort of sustainability you feel from this float?

N. Kamakodi: We have always maintained that CASA is not our core front., You may safely assume whatever you assumed in the Q4 last year, the similar pattern will continue for the current year also. I did not speak even a single word about CASA during my entire 15, 20 minutes. I do not want to increase the expectations and get short of it.

Rinesh Bua: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, thanks for the opportunity. First on this borrowing side, I do not know from this balance sheet, the borrowing amount has gone up significantly and also there is a corresponding increase in CASA so there is some one-off in both these heads?

N. Kamakodi: As we are operating at an average CD Ratio of 83% to 84%, we have resorted to borrowings basically through REPO based on our excess SLR securities.

Jai Mundhra: Sure Sir, secondly we have mentioned that IBC exposure we had two accounts, which have already been provided fully and written off, but now considering there is some resolution, which are picking up, is there any chances of some amount being reversed from that account and if you can quantify what was the exposure and considering the development so far, do you expect any write back of provision or recovery sort of this amounts?

N. Kamakodi: To be specific one account was Orchid chemical to which we had lent about Rs.30 Crores. We received about Rs. 10 Crores and recognized after readjustments. If the resolution happens through Hospira take over definitely there will be reversal from that particular account. Another account is Loha Ispat . Initially we had provided for ₹18 Crores but subsequently after adding interest and receivables the outstanding spiked to ₹40 Crores. At some point of time, resolution will happen, but we need to wait and see to what extent we get settlement. As a matter of prudence we have taken that off not to have any uncertainty on that level.

Jai Mundhra: Sure, whatever comes will go directly to the other income line?

N. Kamakodi: Yes, it will go the other income.

Jai Mundhra: And secondly Sir, if you also quantify the risk weighted assets for our bank as of Q4 and SMA2 figure also?

N. Kamakodi: SMA2 figure, I have last year itself told I am not going to share, but what I can definitely tell is that on the Q4 figure we could see substantial reduction. The current SMA2 figure is based on the older definition of ₹5 Crores and above, which we normally have to report to RBI which currently stands at about 1.5% as compared to 1.99% for the December quarter and overall the numbers were less than 5 after many quarters. But unless and otherwise I see a pattern consistently over a period , I do not want to read too much into it. But I can definitely say normally it used to be between 5% and 6% with slippage about 1.4% to 1.5% during 2014. That number in between went into double digit also. We discussed it during the few quarters couple of years back.. After lot of accounts which slipped into NPA, some got upgraded and the number are currently closer to our long-term average, this is what we can say.

Jai Mundhra: Sure and this risk weighted assets what is that number?

N. Kamakodi: For the Q4 it is about Rs. 26087 Crores and for the Q3 it was Rs. 24521.78 Crores and this number is also there on the presentation.

Jai Mundhra: Sure and just last one observation, if we calculate based on the period and balance, there is a much difference in the net interest margin and also cost of deposits, so it would be safe to assume because you probably would be doing daily average kind of averaging, so there is some substantial difference in the period and balance in the daily average balance. Would that be fair assumption?

N. Kamakodi: Yes, it is a fair assumption. In a quarter, normally what happens is that out of three months, the bulk of growth will be happening towards the end of the quarter and that figure will become the base for subsequent quarter. You will be having the sort of difference between ie., the daily average and the figures towards the quarter end.

Moderator: Thank you. We have a next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Good afternoon Sir. I have a couple of questions from my end again on the entire cost side, if you look at the cost of fund it continues to decline for you when do you see this kind of reversing, second on the yield on loans, which we are seeing a much faster compression, at the margins what are the loans writing today is it at a rate, which is now reaching at 11.2% or is it still lower than that?

N. Kamakodi: I will give the answer in a broader perspective. In terms of lowering of cost some amount of increase in the CASA in this quarter had a marginal few basis point positive impact . As you know our major proportion of our funding is from the retail term deposits and the bulk of the deposits are one year or so. For the next one quarter or so we may be getting marginal repricing benefit because of the maturity of the old deposits, which will get repriced at lower rate of interest. But one thing what you have to look into is the talk of increasing interest rate cycle . That will also be playing its role more in yield on advances than in CASA deposits . Even at the beginning of the last financial year, it was expected that there may be some 25 basis point cut in the net interest margin or margin pressure and I was making all other calculations based on that assumption and fortunately that much compression did not happen and year as a whole you had some margin expansion mainly because there were supply side constraints particularly from the public sector banks, which helped most of the banks to hold on to their yield and to balance the net interest margin. So when I say that we are expecting margins to contract, the message is that we are prepared for such a type of contraction and we will be using the other levers to whatever extent the possible to take care of that loss.

MB Mahesh: Perfect Sir. Second question, how is the underlying recovery environment that you are seeing on the ground because you have a fairly large amount of written off assets as well, I mean the kind of recovery rates that you are getting when you are going to the market to sell some of these loans?

N. Kamakodi: What happens is that we are able to see increase in the absolute numbers. The live and the technical write off accounts together accounted for Rs. 84 Crores, which is almost equal to our profit after tax growth for the current financial year. We are prepared for say another 5% or 10% increase in the haircut because it will be commercially making sense by expediting the recovery rather than to see your collateral values go up faster than the returns you can make by reinvesting those money. So we expect on absolute terms the recovery should be improving in the current year for which we are planning from the year beginning, the result should be visible from the Q3 and Q4.

MB Mahesh: Perfect and my last question, when you are seeing your customers today, have they started reporting better revenue growth because of GST?

N. Kamakodi: Yes. Many of the small and medium scale enterprises who are having the turnover off the books could see such improvement on better compliance because of the GST. They could see some level of improvement after the July last year and now after the arrival of the e-way bill, one could see incremental numbers. We could see borrowers asking for extra funding to take care of incremental turnover when they could see more money to be refunded from GST. There are definitely anecdotal evidences on that, but to see how it will impact the portfolio as a whole we have to wait for some time to get a clarity.

Moderator: Thank you. We will take the last and the followup question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Thanks for the opportunity again. Sir, if you could throw some light on how is the home loan environment in Tamil Nadu right now. After all the issues that was there in the quarter like historically because there were some sand minding ban, which was lifted in terms of…whereas Supreme Court had put a stay on the issue that was there?

N. Kamakodi: As we had shared in the earlier years, we are not aggressive in consumption loans and home loans . We are not aggressively pushing the products. At the same time, we give that products to all our existing customers and we price it slightly higher than the market rate. But still there are takers for the sake of relationship and convenience . Many of those borrowers are basically our SME borrowers who also give us collateral for their other borrowings. You could clearly see some amount of growth in the home loan disbursement. I do not say that it is because of change in home loan environment but it is mainly because we have started giving to our existing borrowers as against the practice of referring them to other finance companies earlier. What I can add is that when the ban happened it is not that entire thing was closed and when the ban was partially lifted everything got opened completely. It is almost status quo as most of our home loans are not to flats but towards independent homes.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. We have one more question from the line of R Shri Shankar from Prabhudas Lilladher. Please go ahead.

R Shri Shankar: My question is with regard to your exposure to textile, which is roughly 11% of your portfolio. , so from that, which is cotton and I would presume that it is mostly double knot, can you give us some colour on the kind of industry strength or whatever is there any stress that we are seeing in the textile side?

N. Kamakodi: Basically you have various activities which are engulfed in that one starting from ginning, spinning, gray gada manufacturing to readymade garments , it covers both the cotton and synthetic put together and everything comes under textiles as a whole. I used to face the question that textile is supposed to be one of the thrift area., You had lot of issues like Alok Industries in the past. We never had any spike in stress even in the past when we had ban on dying, shocks in the cotton prices and recently after the introduction of GST. Yes, we had one textile account, which has become largest NPA of this quarter and even one largest NPA we had in the previous quarter, but these are on account of overstretching by these borrowers and not purely based on the performance of the industry. It is by and large stable. In fact in three years' time you had more than five, six cycles in that particular industry. We do not have any spike or any incremental undue stress much different from the portfolio level spread particularly of the textile sector.

R Shri Shankar: No, my question is precisely with regard to this, while I appreciate your point on Alok, the question here is in this quarter we had a stress coming from a textile if I got you right even in the last quarter that we had, so the industry in general is not in a very happy situation, so the question is?

N. Kamakodi: I will answer for both the cases. The one which got declared as NPA last quarter was not because of the problems with the textile account, but because the borrower wanted to diversify and opened one paper factory, which got into stress and because of that the stress got into that textile unit. Similarly, for the one which got declared in the current quarter also, it was because of the overstretching by the borrower and not because of the performance of textile industry per se. Those who are disciplined and doing the business in the normal way, neither they may be having supernatural profit nor get into these sort of issues.. We came closer to sanctioning and disbursing loan to Alok industries and finally some sense prevailed and we stayed out, so here I still believe that the stress in these accounts are not because of the industry level issue but because of the specific issues of the promoters.

R Shri Shankar: Sir, you have got one of the most enviable cost to income as one of the big advantage for you in terms of it at lower at around 38%, 39% where do you see yourself in a couple of years, do you think that you will maintain these numbers at these levels or do you think that it is going to push up, you have also mentioned that you got a average 7% increase in personnel cost. So do you think that this technology etc., is going to bring your cost down from these levels or is it going to remain at these levels?

N. Kamakodi: Rather I will ask you to look into the ROA more closer than your cost to income ratio. Cost to income ratio is basically factor of non-interest income and non-interest expenditure. When there is fluctuation in those you will be having distorted understanding of the ratio. As I told you in the current year, we may see at least 3% to 4% increased cost to income ratio because the opportunities on our treasury income is not going to be available for the current year, but it does not mean that I am totally worse of by having my cost to income ratio increasing by 3% to 4% . What I feel is that ultimate number is ROA and I would not even count ROE. . Our priority will be to have a focus on the return on assets as longs as we are able to maintain around 1.5% because of increase in margin or because of lower cost. Personally, I will give more importance for ROA than to other ratios.At the same time we have done our best to get income from each and every line item in other income and we have worked our best to maintain the cost in the other expenses as low as possible.

R Shri Shankar: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Ravi Singh from Ambit Capital for closing comments. Thank you and over to you Sir!

Ravi Singh: On behalf of Ambit Capital, I thank you everyone for joining us on this call, thank you and have a good day.

N. Kamakodi: Thank you all for attending the conference call and we are planning to have one analyst conference or analyst meeting where I could meet as many of you as possible in Mumbai on May 31, 2018 and you may be getting invite on that shortly. I warmly invite on behalf of City Union Bank. It is long since I met you all as a group and at individual level. I have met some of you during the individual conferences.. I request all of you to attend that conference where we can discuss the broader issues and direction and to get to know each other in a better way and once again thanks for all your support and your interest in City Union Bank and we pray almighty to give sufficient strength to us to do our best and maintain all these efficiency and profitability ratios going forward. Once again, I thank Ambit and Mr. Ravi Singh for arranging this conference and once again I thank all of you for patiently attending this conference. Thank you all.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.