"City Union Bank Q1 FY2019 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the City Union Bank Q1 FY2019 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. Gaurav Kochar from Ambit Capital. Thank you and over to you Sir!

Gaurav Kochar: Thank you. Good afternoon everyone. I welcome you all to Q1 FY2019 earnings call of City Union Bank. On this call is MD & CEO, Dr. N. Kamakodi and CFO, Mr. V. Ramesh. Thank you Sir for this opportunity of hosting you on this call and over to you now.

N. Kamakodi: Good afternoon everybody, Dr. Kamakodi here.

Hearty welcome to all of you for this conference call to discuss Q1 FY 2019 financial results of City Union Bank. The Board of Directors adopted the unaudited results today at Chennai.

I will present 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.

After the announcement of Bonus shares in the May 2018 Board meeting, the shares have been credited to the shareholders and payments for the fractional shares are in progress.

This year the Annual General Meeting (AGM) of the bank is scheduled to be held on 01st September 2018 at Kumbakonam. We invite all the shareholders to attend the Annual General Meeting. The annual report and agenda are already dispatched. Soft copy is available in our website.

In the AGM, 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.

The highlights of the Q1 financial results are as follows:

As you all may remember, during the earlier concall in May we said that we expect to grow between 18% to 20% in advances during FY 18-19. We also said that there might not be opportunities to make profit from treasury this year compared to previous year. And also there could be compression in margin and hence operating profit growth may be flat while Profit after Tax growth has to be achieved by better NPA management.

Overall, we have closed the first quarter with 17% growth in Advances, 10% growth in Deposits resulting in business growth of 13%. The growth of OP is 1%, while PAT and NII grew by 15% and 9% respectively for Q1 FY 2019 over corresponding period Q1 FY 2018.

The Q1 performance has been in line with the expectation which we had shared during our last con-call in May 2018.

The core profitability and efficiency ratios like ROA, ROE, Cost to Income ratio and the NIM are closer to the best in the banking industry. ROA is 1.64%, ROE is 15.32%, Cost to Income Ratio is at 40.58%. NIM is still maintained above 4% (4.24%).

The non interest income of the bank in Q1 FY 19 is Rs.129.11 cr lower than Rs.135.34 cr in Q1 FY 18. For sequential quarter it was Rs.119.82 crs. Reason for decrease in non-interest income when compared to Q1 FY 18 is mainly due to decrease in treasury profit from Rs.39.02 cr to Rs. 19.31 cr in Q1 FY 19. Though there is a decline in treasury profit, it has been offset to some extent by contribution from other Non-interest income like Guarantee Commission, CEB, locker rent, collection from written off accounts etc. We have made a treasury profit of Rs.65 cr in Q2 FY 18 and we don't expect favourable yield movement in Q2 FY 19 and hence we don't expect that much income in second quarter there by affecting operating profit of Q2 FY 19. As we discussed during last concall in May, the PAT growth in Q2 has to mainly come from better NPA management and lower provisions.

We have achieved a live NPA recovery of Rs.62 cr during Q1 FY19 compared to Rs.43 cr in Q1 FY 18. The recovery and liquidation of collaterals is showing some positive trends which we expect to improve during this FY compared to earlier quarters.

We also don't have any unprovided depreciation in treasury book using RBI dispensation. Other operating expenditure has gone up by 13% in Q1 FY 19 from Rs.180.75 cr to Rs.204.48 cr.

We have opened 1 branch during this quarter adding the total to 601 against our plan of 75 branches for FY 2019. We have planned to open the remaining branches in the ensuing quarters.

I have been getting repeated calls asking about 1. SME stress & 2. Valuation issues of real estate collaterals based on the points discussed by Sri. Kotak.

Regarding valuation issue, we have been capturing both Fair Market Value and Forced Sale Value of collaterals for quite some time. We also have the practice of getting valuation done by two panel valuers if the value of collaterals is over Rs.10 Cr. We have been seeing the following trends.

We had a period of 3 to 4 years in the past when we had issues with liquidation of collaterals. The sale deals were not happening which we discussed during conference calls also. But they were not price issues but seemed to be liquidity issues. Things started showing some improvements in mid 2016 but we had "demonetization" which completely paralyzed the entire property market.

Now we are seeing some improvement. We saw some 10% correction compared to earlier prices. But things are under tolerable limit when we checked about 100 successful auction cases happened in the recent past, the forced sale value and deal value were comparable.

We have been seeing Rs.75 cr to Rs.80 cr recovery from Rs.100 cr NPA value in the past and now also expect similar recovery within +/- 10% range.

Regarding SME stress, the experience is mixed.

On one side based on 180 days dispensation given by RBI, we have given the benefit only to four accounts totaling Rs.19 cr of which 2 accounts amounting to Rs.17 cr in Q4 FY 18 & 2 accounts amounting to Rs.2 cr in Q1 FY 19, which means other accounts did not intend to use this dispensation.

On the other side though the CRILIC reported SMA 2 figures are around 4% during the last four quarter ends, we could see some spikes during the intervening months.

Some SMEs are crying that some of the well known and so called top class infrastructure building companies are not making payments on due date creating issues to them.

Some educational institutions particularly professional colleges are under stress because of delayed payment of scholarship fee reimbursement by the governments and also disturbances in admissions due to NEET exam or other poor patronage for engineering admissions.

Two accounts – one paper mill and one educational institution with exposure over Rs.50 cr are showing elevated stress.

But still we are hopeful of maintaining the slippage ratio to closing advances of 1.75% - 2% for FY 18-19 as discussed during earlier quarter.

Now, Shri V Ramesh will take you through numbers.

V. Ramesh: I am Ramesh, CFO. Good evening everybody and thank you for attending the City Union Bank's earnings call of Q1 FY 19.

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

The Operating profit of the Bank recorded a flat growth in Q1 FY 19 over the corresponding period in Q1 FY 18. In absolute terms the Operating profit stood at Rs.299 cr as against from Rs. 297 cr.

The Net Profit for Q1 FY 2019 has increased by 15% over Q1 FY 18. In absolute terms the net profit increased to Rs.162 cr from Rs.140 cr.

The Net NPA decreased by 9 bps from 1.79% in Q1 FY 2018 to 1.70% in Q1 FY 2019.

Coming to the Business growth, our Deposits have increased by Rs.3,129 cr from Rs.30,468 cr to Rs.33,597 cr in Q1 FY 19 thereby registering a growth of 10% over the corresponding Q1 2018.

Similarly, for the quarter ended 30th June 18, our Advances increased by Rs.4,157 cr from Rs.24,058 cr to Rs.28,215 cr translating into a 17% growth over the corresponding Q1 2018. Thus the total business grew by 13% from Rs.54,526 cr to Rs.61,812 cr on y-o-y basis.

CASA has increased by 13% in absolute terms by Rs.939 cr from Rs.7,099 cr in Q1 FY 18 to Rs.8,038 cr in Q1 FY 19. The current account portion has increased by 12% and the savings account portion by 14%. The share of CASA to total deposits was 24%.

Cost of Deposits for Q1 FY 19 has come down by 29 bps to 6.15% from 6.44% compared to Q1 FY 18.

The Yield on Advances for Q1 FY 19 stood at 10.86% as compared with 11.79% in Q1 FY 18 on account of stiff competition from peers / PSUs.

The interest yield on Investments has marginally decreased by 2 bps to 6.91% for Q1 FY 19 as compared to 6.93% for Q1 FY 18. For Q4 FY 18 it stood at 6.90%.

The Net Interest Income for Q1 FY 19 stood at Rs.374.78 cr as against Rs.342.38 cr in the corresponding period in FY 18 thereby registering a growth of 9%. The Net Interest Margin for Q1 FY 19 stood at 4.24% vis-à-vis 4.47% in Q1 FY 18.

The non interest income of the Bank in Q1 FY 19 was Rs.129.11 cr as compared to Rs. 135.34 cr in Q1 FY 18.

Other operating expenditure has increased by 13% in Q1 FY 19 from Rs.180.75 cr to Rs.204.48 cr. The increase is on account of revised salary, and normal rise in expenses like Advertisement, Telephones, Insurance, Repairs and maintenance, etc. Out of the above, the establishment expenses (salaries) increased from Rs. 77 cr to Rs.87 cr in Q1 FY 19.

The operating profit for Q1 FY19 has thus remained flat at Rs.299 Cr.

For Q1 FY 2019, the total provisions have decreased by 12% from Rs.157 cr to Rs.138 cr due to lower provisioning for NPA and Investments. Rs.65 cr towards NPA as against Rs.86 cr provided last year. We have also provided Rs.8 cr towards possible haircut on SRs.

The details of provision made for the Q1 FY 2019 is as follows;

Provision for NPA	65.00 cr
Provision for Income Tax	60.00 cr
Provision towards depreciation on Investments	8.00 cr
For investment shifting	6.51 cr
Standard Assets provision	0.50 cr
All other provisions – written back	-2.25 cr
Total	**137.76 cr**

Thus, total PAT for Q1 FY 19 increased by 15% from Rs.140 cr to Rs.162 cr.

The Return on Assets (ROA) for Q1 FY 19 stood at 1.64% Vs 1.60% in Q1 FY 18. The Return on Equity stood at 15.32% for Q1 FY 19 as against 15.51% for Q1 FY 18.

Cost to income ratio increased to 40.58% for Q1 FY 19 from 37.84% in Q1 FY 18 on account of increase in salary to employees.

For Q1 FY 19, the additions to NPA account was Rs.126 cr vs Rs. 148 cr in Q1 FY 18.

During the year the Bank has neither Restructured any accounts nor sold any assets to ARCs. The outstanding in SRs as at the end of 30th June,2018 was Rs.341 cr.

The total restructured standard advances currently stood at Rs. 8 cr which is 0.03% of our Gross advances. In Q1 FY 19, one account has slipped to NPA from restructured standard category.

With this I conclude and over to you for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rahul Maheshwari from TCG Asset Management Company. Please go ahead.

Rahul Maheshwari: Good afternoon Sir. I have two questions: first of all what led to the operating expenses on a 13% increase mainly on employee and plus the other expenditure can you give some detail and going forward it was just a one off and going forward it will trim down?

N. Kamakodi: The main growth of operating expenses as we always have, we have one ex-gratia being paid in the month of April and one in the third quarter, so for that that is the main incremental thing on a sequential basis where we have made about 9 crores extra provision. We have expected this growth and it will always be in line with the business growth.

Rahul Maheshwari: Is the entire gratuity amount provided for? Or going forward there would be more provision that you have to take?

N. Kamakodi: I think I have to clear one point here. We are not part of IBA settlement and we have our own bi-partite settlement with Staff Union and Officer Association. We do not have that pension provision, AS-15 and all other things which are normally applicable for banks which are under the IBA settlement.

Rahul Maheshwari: So, we would be expecting this run rate of 13% going forward also?

N. Kamakodi: Yes, you can assume.

Rahul Maheshwari: So, would you reduce the cost income leaving apart the income growth, what is the cost efficiency would be there?

N. Kamakodi: Finally we look into ROA. The cost income ratio since you have to take care of your non-interest cost and non-interest income, you are going to have shortage on that because of your non-availability of treasury profit this year as like last year. As I told in my earlier discussion, the cost income ratio will be slightly looking elevated as you move forward, but our endeavor is to ensure that overall ROA is maintained.

Rahul Maheshwari: In your interest expenses if we look at there has been a sharp increase in other interest expenses by 141% leaving at par interest expense on deposit, so what has let to such sharp interest expenses?

N. Kamakodi: The other interest amount is hardly Rs.13 cr which is mainly because of the borrowing and refinance cost. As you well know when you operate at reasonably higher CD ratio around 85% and you will need a refinancing and actually if you look at the comparison figure which is 13 Crores versus 6 Crores,

Rahul Maheshwari: Last question Sir, can you give a little colour on the overall textile and cotton sector because as it is contributing 10% of your overall loan book as we found in many of banks, there is problem in many of agri commodities like cashew and all this thing, so how the scenario has been there in south for most of the rubber, cashew and all the sectors?

N. Kamakodi: Rubber, cashew exposure is with Kerala based banks. We do not have much exposure to cashew and rubber. Regarding the cotton, textile and all, as we have been repeatedly saying nothing is a matter of concern what we have seen in the earlier quarter, the same situation continues.

Rahul Maheshwari: So, there is no stress or any SME players, which are going through stress due to GST transition and all this, you are not finding such stress at least in two quarters?

N. Kamakodi: At this time, we do not see anything, if anything comes in this current quarter we will inform you in the second quarter concall.

Rahul Maheshwari: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Renish Bua from ICICI Securities. Please go ahead.

Renish Bua: Sir, good afternoon. Basically in your opening remarks, you highlighted that the SME 2 has been around 4% for last four quarters, but there has been some spike during the month of July, is that what you explained in your opening remarks?

N. Kamakodi: No, what I am actually explaining is that for the last four to five quarters the quarter end figures are less, but the other two months in between two quarter ends we could see some spikes.

Renish Bua: So, how has been the trend on SME 2 accounts if we have to compare from Q4 to Q1 and first month of July if any trend or anything you just wanted to highlight on the commercial business?

N. Kamakodi: By and large the quarter end SME 2 numbers reported are almost stable.

Renish Bua: Stable you mean fourth quarter versus first quarter, right?

N. Kamakodi: I am also talking about first quarter end, second quarter end, third quarter end, fourth quarter end and first quarter end.

Renish Bua: Got your point Sir, and secondly you have also mentioned about this 50 Crores account so there were basically two accounts, which you are referring right?

N. Kamakodi: Yes.

Renish Bua: Together the total exposure was 50 Crores?

N. Kamakodi: No, individual exposure is 50 Crores plus together should be about 150 odd Crores.

Renish Bua: 150 odd and which sector it belongs to?

N. Kamakodi: As I told, one is a paper mill and the other one an educational institution. Do not read too much because in the past, we had a paper mill, which was going for many quarters, but they got out the list and all like except these are the largest two stress, which we are seeing at this point of time. Do not read too much, let us see how things move as we move forward.

Renish Bua: Sure Sir and secondly again you are repeating the same thing on this valuation thing of the security, which we have specifically physical asset, so you are saying that there has been a 10% price correction after the demonetization right in the overall average?

N. Kamakodi: It varies from place to place and things like that, average is about 10%.

Renish Bua: 10% is the price correction; so basically since we are maintaining a 65% coverage ratio all the time, so we should not have any write off even in case of slightly low recovery is that right to assume?

N. Kamakodi: No, as I had clearly informed that recovery rate is about 75 to 80 which means the haircut is about 20% to 25% in the past. This is our experience in the last many quarters, what I have given is that we do not at this point of time, expect any serious damage to that on the portfolio.

Renish Bua: Correct, basically I am just going by your assumption since we have a coverage of roughly 65%, that means 35% we are keeping as a cushion, so assuming your past trend, which is anywhere between 20% and 25% there should not be any heavy right off in coming year is right that is what?

N. Kamakodi: Let say, I am talking the portfolio level.

Renish Bua: Absolutely.

N. Kamakodi: At individual level, even though I do not have anything at this point of time, this would be too much of an extrapolation.

Renish Bua: Got your point, it has to be case-to-case basis you are right. Thanks a lot.

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

Rohan Mandura: Thanks for the opportunity. Exposure to the wholesale trader segment; there was a dip of 7% Q-o-Q under total loans, now historically 1Q it has been like 2% to 3% kind of decline, so is there any specifics?

N. Kamakodi: See in wholesale trading, one of the major things, which you have to look into, is the utilization in the cash credit limit, which can change on a day-to-day basis. We normally see the utilization rates at an individual account level maybe from 70% to 100%; so it is basically what it signifies is that some amount of reduction in the utilization of cash credit accounts at this point of time.

Rohan Mandura: So, it can reverse?

N. Kamakodi: It is because of the fluctuation in the drawings.

Rohan Mandura: Sir, any sector concentrations in the wholesale trader segment?

N. Kamakodi: Exactly you have textile trading coming over there, you have pharmaceutical wholesalers coming over there, you have even an iron and steel, people having a larger amount trading in sectors like that it is spread across different sectors per se.

Rohan Mandura: Sure, Sir if you could give how is the pricing and competition right now in the SME space and what is our expectation for the remaining part of the year?

N. Kamakodi: As I told in the earlier concall, we always felt the yields decreasing in the decreasing interest rate scenario and increasing in the increasing interest rate scenario. In the last decreasing interest rate scenario, the yields did not fall as much as in the previous interest rate cycles. We are not sure whether it is because of the supply side problem or it is because of lag effect between the market interest rate reduction than the actual rate reduction. So we are waiting and watching closely and we also clearly told that the net interest margin with which we have been operating in the last four to six quarters are way above our long-term established net interest margin by at least 60 to 70 basis points. That is why I even said we are expecting some amount of margin pressures, but we are not sure how much it will fall in the next four quarters. We are closely monitoring the situation, so we have already factored in as we discussed the margin contraction, but to what extent or how many basis point is something we have to clearly see. We have seen about 15 to 20 basis point of reduction in the yield in the net interest margin in the first quarter; let us see how things pan out as we move forward.

Rohan Mandura: Right, lastly on the NBFC lending that we are doing what are the type of customers whom we are lending to and what is the typical rate of interest in the structure?

N. Kamakodi: What is NBFC? What is that you are saying?

Rohan Mandura: NBFC lending in the sectoral exposure that we are disclosing….

N. Kamakodi: It is not a very significant one, hardly about 1% of our loan book.

Rohan Mandura: But during the quarter the growth was on a small base around 30%?

N. Kamakodi: It is mainly because of the drawings like say OD against the deposits placed by the borrower. So it depends on the drawing that may come, there will be fluctuations in the accounts and we have not made any drastic incremental exposure there in the particular line of activity.

Rohan Mandura: And these for HFCs or MFIs or any board sectoral split?

N. Kamakodi: We have one institution called the Kumbakonam Mutual Benefit Fund situated in Kumbakonam and they are our customer for very long time. They are having OD facility against the deposits placed by them. We have some amount of facilities to Shriram City Union Finance for quite sometimes these are all and we do not have significant exposure of say over 25 Crores, 30 Crores.

Rohan Mandura: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of M B Mahesh from Kotak. Please go ahead.

M B Mahesh: Good afternoon Sir. One basic question, we still have not seen any announcement from your side on increase in domestic term deposit rate; just wanted to broadly understand how comfortable are you on the liquidity front and second we also have not seen any corresponding increase in the lending rate side seeing how are you looking at this one aspect?

N. Kamakodi: We have about 1500 odd Crores of surplus funds. In other words, we can go for increasing our loan book by another 1500 Crores without increasing the deposits. That is why we have not increased our deposit rates; so there could be some increase in the MCLR from August about 25 basis points or so.

M B Mahesh: But you will see corresponding increase on the deposit side?

N. Kamakodi: Yes, it may not be one-to-one, there will be some.

M B Mahesh: Second, if you assume that the current MCLR holds, is there further pressure on the yield side?

N. Kamakodi: That is why I said I cannot rule out any reduction in the yield; but I am not in a position to exactly tell you how much it will happen. I am just reacting to what is happening, yes definitely that is some amount of few basis points let us say I do not have number to tell you; some contraction here and there will be there, which we have communicated and discussed even during the last concall about the outlook for the current financial year.

M B Mahesh: The reason I am asking is that when we look at anecdotal evidence such as there is still a gap of somewhere close to about 60 to 70 basis points on the yield side?

N. Kamakodi: Yes, what I can definitely say that is 60 to 70 basis point of contraction, which I do not expect in the next two to three quarters.

M B Mahesh: That is not possible. Thanks a lot for this.

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

Amit P: My question is on the slippages front. Can you throw some light on slippages from exactly where it has come?

N. Kamakodi: There is not even one slippage in this quarter over 10 Crores; all are granular.

Amit P: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: Thanks for the opportunity and excellent set of numbers. I had one question to you and that was continuation to the earlier one, it was about 1500 odd Crores of surplus liquidity on your balance sheet, which probably takes care of your growth a quarter or two; but then how are you looking at your overall deposit growth mobilization and impact of that on your overall profile?

N. Kamakodi: I do not expect any major constraint because of the deposit attrition; so we will be tinkering with the rates depending upon how our incremental credit growth pans out based on that we will be tinkering with the rates of deposits to ensure that we are not missing the growth opportunities of non-availability of deposits. We do not expect that to be a major challenge at least at this point of time.

Alok Shah: Sir, is there some thought on what is the margin level, which we would like to work with without compromising on growth?

N. Kamakodi: That is what already we have been doing. As I told you, we balance and we have certain operating philosophy in NIM and growth, which we have already demonstrated, and we would like to focus that we are able to have the same amount of the focus going forward also.

Alok Shah: Sure, if I look at 60 quarters average and that has been in excess of 4% and you probably are at 4.24 now that but that is where you would look to still to do the business at?

N. Kamakodi: If you had a chance to look at that leaving the last six quarters, the previous 50 quarters, at least 40 to 45 quarters, had net interest margin in the range of 3.5 to 3.7 or rather 3.4 to 3.7. As we discussed this point in the last concall, we are still not in a position to fully say whether it is because our entire P&L and working has got readjusted to the expanded margin or it is because of the supply side constraints; so we are keeping a close eye on those factors. As I told you for the first question, I am okay as long as I am able to keep my return on assets close to 1.5, may be the tolerance limit will be above 1.5 to 1.7 if I am able to say it, rather 1.4 to 1.6 per quarter. If I am able to maintain at that level, I am not worried about the 10 to 15 basis point movement of net interest margins this way or that way.

Alok Shah: On the same line, what part of the portfolio in MCLR linked now?

N. Kamakodi: About 85% or so.

Alok Shah: I missed the initial comment you talked about adding closure to 75 banking outlets could be?

N. Kamakodi: Repeat the question?

Alok Shah: What was the guidance on new branch addition for this year?

N. Kamakodi: See, the last four to five years we have been opening about 50 branches; so 50 to 75 is the range which we are keeping, which includes the branches, that we will be opening as outlets as they are now called by RBI circular, which will be manned by business correspondence.

Alok Shah: That answers my question. Thank you so much.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management Company. Please go ahead.

Roshan Chutkey: Just two questions; so basically are you seeing any PSLC fee income opportunity for us?

N. Kamakodi: Yes, last year we made a profit of 16 Crores by way of selling excess priority sector lending. This year also you cannot keep it as a quarterly expectation. We have some shortage in the small and marginal farmers, but at the same time we have some surplus on the micro & general than your smaller marginal farmer type; so we sell whatever we have in surplus, and we buy whatever we have in shortage. With this strategy, we were able to have about 16 Crores profit last year. This year we have to wait for the year closing, I will not be in a position to give it to you how it will be there on for individual quarter. It depends on various factors including how we are able to manage agriculture towards the year-end.

Roshan Chutkey: Sure and the second question I wanted to ask you is, if deposit raising is a constraint would you not buy some of the IBPC from some of PSU banks, which may be a good option for you of course if you can?

N. Kamakodi: Yes, as I told you, we do not expect deposit accretion to be a constraint for the credit growth. A year before last we did some IBPC purchase; this call is mainly taken based on the individual profitability calculation and the market price of both the options, but so far we have not faced the situation where deposit growth is funding the growth rate of advances.

Roshan Chutkey: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Renish Bua from ICICI Securities. Please go ahead.

Renish Bua: Sir, thanks for taking my questions again. First of all, if you can just provide us the breakup of the loan growth, let us say we clocked 17% Y-o-Y in this quarter. How much is value driven and how much of it would be the volume driven if you can or if you can just highlight qualitative comments on this?

N. Kamakodi: See the numbers are by and large as usual between the March 31, 2018 figure and June 30, 2018 figure, that used to be the way our behavior had been like that in the past also. Number one we do not chase growth for the sake of showing numbers. We always try to keep our focus on the profitability and yield, that is why we are able manage the ROA front. So, based on that, the 17% as I told you it is not something which has substantially happened in the first quarter. It happened over particularly the second, third and fourth quarter of the last financial year, which is once again the basic principles. Also, being the sole bankers to provide loans and focusing on small and medium scale enterprises, commercial trading and agriculture all those items helps us grow in the latter half when demand sets in.

Renish Bua: No, basically just wanted to get the sense how much of this incremental growth whatever we have done in Q2, Q3, Q4 would be to adjusting clients?

N. Kamakodi: Let us say when we used to grow at around 25%, roughly one-third will be from the growth rate of individual existing customers, one-third will be the growth contributed by the new branches which got opened in the last five years and one-third will be by the growth of older branches' acquisition of new. If you put into year to year basis, probably about 60:40 you can keep, which is from existing customers and also here there are two things it could be new customer acquired or he may be an existing customer not a borrower in the past who would try to take a loan or an existing customer going for completely a different project or whatever.

Renish Bua: Right, got your point, so basically roughly you are saying current rate is 60:40 which used to one-third, one-third, one-third?

N. Kamakodi: Yes. It is an estimate, answering on my gut feeling.

Renish Bua: Sir, secondly I am sorry if I am repeating this question, but on the margin side whatever compression you must be building in your model would be largely driven by higher cost of deposit or a lower asset deal?

N. Kamakodi: Yes, it will be there on both the sides where we feel the reduction by and large will be identical at this point of time; actually if you factor in the delayed factor of the yield on advances, it may have not decreased to that extent as we anticipated in the past.

Renish Bua: Right and since we have already entered rising interest rate cycle?

N. Kamakodi: That is why I have to be very careful, I am not able to fully get the time lag factor between the interest rate cycle, which is determined by the RBI increasing or decreasing the rates and how the market rate to be in the market. I mean when RBI decreased rates last year and all the yields did not decrease to that extent, in fact we could even see sometimes when the yield increase when the rates were actually decreased. There is some sort of time cut which is different from our experience whatever we saw in the earlier interest rate cycle. That is why I am not able to give an exact number because the behavior is not exactly what we had in the past.

Renish Bua: It seems now the pricing method has also changed to MCLR only, so once you re-price your deposit, your MCLR will automatically re-price at a higher rate maybe in a month or two right? So whatever incremental lending will happen, it has to be happen at a higher MCLR rate, so in that sense asset yield going down either it would be competition-driven or we choose to pass on the benefit to customer whatever we decide right?

N. Kamakodi: Yes, we will taking it and another thing you have to keep in mind when you had revision in rate, you can immediately pass on the rate increase or decrease to all the customers. In the MCLR regime, you can do this arrangement only with your new customers; so the new customers impacting the yield of the portfolio assets it will take longer time than you think.

Renish Bua: Right, longer time than historical?

N. Kamakodi: Yes. In base rate regime, you can do it immediately, but in MCLR regime it has to happen over a period of time.

Moderator: The next question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: Thanks for the opportunity. Sir, just one thing on the provisioning on SR portfolio, we now have something closer to 42% provision, are we looking at increasing that number mainly for the percentage points?

N. Kamakodi: See, we do not keep any target numbers depending on the expectation on how much haircuts that can happen in the future and also recommend by the valuation given by the trust or the ERC. So for example, 90% of the SRs come from four accounts; in those four accounts we discussed about the resolution and all, the repayments have fully started from two accounts. So, even though under the repayment period if stretched over a period of another three-four years for those two accounts, if you take those calculations and the coverage ratio is not going to be strictly followed that it will be divided based on our expected future haircut requirements and you cannot target coverage ratio for that.

Alok Shah: Fine, and one question on you fee income growth that kind of 9% Y-o-Y and 11.6% Q-o-Q; anything specific here?

N. Kamakodi: You mean lower growth or higher growth?

Alok Shah: It is lower. I mean if I look at same quarter last time Q1 it was at 27% growth?

N. Kamakodi: How it unfolds is I have been repeatedly saying; we normally calculate this as other income not just core income. My other income consists of my core fee income, my treasury profit, write-back of assets and all other miscellaneous income put together. We typically have the operating profit to net interest income ratio of about 80%, which means that about 80% in fact it was 87%, 90%, 81%, 80% and 80% which are basically about 80% of my net interest income is getting converted as operating profit. And if one stream gets affected, it is being helped by some other split; so this is how we have guided and this is how we expect things to go in the near future. Fee income had never been major pointers for us as we had consistently maintained that in the earlier concall.

Alok Shah: That is it from my side. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Gaurav from his closing comments.

Gaurav Kochar: Thank you so much for joining this call. On behalf of Ambit Capital, I thank you everyone. Have a nice day.

N. Kamakodi: From City Union Bank let me express my thanks to all the participants and also to Ambit for arranging this call. I once again extend warm welcome to all shareholders to attend our annual general body meeting. So far, this quarter had also been reasonably good and we could see growth in profitability and maintain the efficiency and profitability ratios. As we discussed earlier, since we are not going to have the profit booking opportunities in treasury, our stand prove to be correct in the sense that we could get profitability and at the same time we could safeguard from not having much depreciation on our bond portfolio, taking the RBI dispensation for prolonged provision and all. By and large, by God's grace, things have been reasonably good. We are trying our best to keep the efficiency and profitability ratios wherever they are now. We hope that both in terms of improvements, we should be in a position to see NPA management to be approvals NPA or incremental collection; but overall we hope whatever we guided we are taking our best effort to achieve as we move forward. Once again, thanks for participating in the call and if you have any extra data points or anything you need, we have given the contact details in our presentation, our DGM Mr. Jayaraman and our CFO Mr. Ramesh; you can get in touch with them.

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