CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – MARCH 2015

Good evening everybody, Dr. Kamakodi here.

Thank you for attending earnings call for the fourth quarter and year ending 31.03.2015.

The board of directors adopted the audited results for fourth quarter and year ending 31.03.2015 on 23.05.2015. I will summarize the overall outlook and our CFO Mr. Sundar will explain the numbers.

Most of the banks have already declared the results. Broadly you have two categories. On one side you have a few banks, mainly new private sector banks, have declared excellent results both on profit growth and asset quality front on the other side you have banks, mainly old generation and public sector banks declaring not so good results.

Our numbers somewhere are in between.

We could see some positive sprouts towards the year end, which is something similar to what we saw around Q2. We hope this positive signal will not vanish. We believe firm positive signals will be visible from Q2/Q3 which will be visible in Q3/Q4 results. All our futuristic predictions are based on this point.

We closed FY 14-15 with 11% credit growth. Bulk of the growth happened in Q4. We believe we should achieve 12% - 15% growth in Advances portfolio for FY15-16 on as in where is condition. Bulk of the growth will happen in second half.

We used to have about 1.25% to 1.50% of closing advances slipping into NPA till FY 13. For FY14 the slippage on closing advances almost doubled to 2.81% amounting to Rs.456 Cr. During the current year FY 15, the slippage moderated to 2.35% amounting to Rs.425 Cr. Going forward slippage ratio will moderate slowly and should get below 2% from FY 16-17 onwards. Going by the current trend the net NPA level should moderate from current level of 1.3% towards the current year end of March 16, while, increase in the level of net NPA by 20-25 basis points from the current level in the intermittent quarter cannot be ruled out.

As such it looks like 80% of the asset quality problems are over. About Rs.45 Cr restructuring which we were expecting and discussed in two previous con-call, the account is recognized as NPA. We had only Rs.3.50 Cr restructuring in Q4. During FY 2014-15, we have restructured only 2 accounts amounting to about Rs.10.30 crs.

As our exposure to infrastructure is minimum and we are not part of many consortiums, we have few CDR cases and fewer problems compared to most of our peers. We are in a much better situation.

We closed the year with NIM of 3.44%, ROA of 1.49%, ROE of 16.91% and cost to income ratio of 42.80% and all this ratios are in line with our previous track record.

When we enter decreasing interest rate scenario, there will be some NIM pressure.

Our ROE was 22% in FY 13 which decreased to 19% for FY 14 and to 16.9% for FY 15 due to rounds of Capital raisings that happened through Rights Issue and QIP. It should start moving up.

As it was explained in the earlier quarter, the liquation of collaterals for NPAs is taking longer than expected. We expected atleast 1/3rd of SR will get redeemed in FY 2015 which did not happened. We are closely monitoring the recovery.

We sold Rs.60 cr to ARC on SR basis. Though it was on a net book value, realization was around 50% only. We still did that because sale to ARCs is definitely putting extra pressure on the borrowers to repay.

More than the NPA addition, delay in collection by liquidation of collaterals is the worrying thing now.

We believe the expected general economic recovery should speed up the process and progress should be firm in this FY.

Spice Jets outstanding has come down to Rs.100 Cr from Rs.200 Cr. Everything was ready for the closure but the attachment by enforcement department has stopped that we are following up. We are getting our payments regularly without any issue for the remaining 100 crs.

The Board has recommended a dividend of 110% for FY 2014-15.

Overall we believe worst in behind us. Best days should be seen in few quarters. But I have to repeat what I said in the last concall. We are better capitalized now. We have better IT infrastructure, we have better branch network. We have 475 branches now and will open 500th branch shortly. We are better prepared to get benefited by economic growth which is expected soon. We don't have much baggage of restructured / CDR / Consortium or infrastructure advances. Hence we should be doing much better in the expected good economic cycle better than what we did in the previous decade.

But economic revival has to happen. Everything hinges on that. If recovery gets delayed, problems will definitely increase.

Now Mr. Sundar will explain numbers. Over to Sundar.

Thank you DR N. KAMAKODI, MD: sir … I am Sundar, CFO.

Good evening every body and thank you for attending the City Union Bank's earnings call of Q4 FY 15 and for FY 2015.

Our Board has adopted the Audited Financial Results for the said period on 23.05.2015, the details of which have been already updated in our website, published and circulated.

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

In a nutshell, the Bank has recorded a growth of 24% in Operating profit in Q4 FY 2015 over the corresponding period of 2014. In absolute terms the Operating profit increased from Rs. 144 cr to Rs. 179 cr. The growth in Operating Profit in FY 15 was 19% increasing from Rs. 581 cr to Rs. 693 cr. Similarly the Net Profit for Q4 FY 2015 has increased by 19% and for FY 15 it was 14% as compared to previous year. The Net Profit for FY 15 was 395 cr as compared to 347 cr in the previous year. We could maintain stable asset quality, with the Net NPA recording 1.30% as compared to 1.31% at the end of December 2014 (Sequential quarter) and 1.23% as on 31.03.2014.

Coming to the Business growth, our Deposits have increased by Rs.2058 cr from Rs.22017 cr to Rs.24075 cr, in FY 2015 thereby registering a growth of 10% y-o-y basis.

Similarly, for the year ended March 2015, our Advances increased by Rs.1143 cr from Rs.16224 cr to Rs.18089 cr translating into 11% growth.

Thus the total business grew by 10% on a y-o-y basis.

CASA has increased by 18% in absolute terms by Rs. 714 cr from Rs. 3917 cr to Rs.4631 cr. The share of CASA in total deposits was 19%. While CA increased by 16%, SA grew higher at 20%.

The Cost of Deposits for FY 15 decreased by 22 bps to 8.15% from 8.37% compared with last year. Cost of Deposits for Q4 FY 15 was 8.14%.

The yield on advances for FY 15 stood at 13.18% as compared with 13.43% in FY 14. For Q4 FY 15 it stood at 13.06% vs 13.09%.

The interest income on Investments has increased by 13 bps to 7.46% for FY 15 as compared to 7.33% for FY 14 and in Q4 FY 15 it increased by 21 basis points to 7.52% from 7.31%.

The net interest income for Q4 FY 15 stood at Rs.205 cr as against Rs.185 cr in the corresponding period thereby registering a growth of 11%. The net interest income for the whole FY 15 grew 6% from Rs. 759 cr to Rs. 807 cr. The Net Interest Margin for Q4 FY 15 stood at 3.40% vis-à-vis 3.34% in Q4 FY 14 and for the whole FY 2015 NIM stood at 3.44% as compared to 3.50%. We have consistently maintained the NIM at around the same numbers for the last so many quarters.

The non interest income of the bank in Q4 FY 15 was Rs. 105 cr as compared to Rs. 85 cr in the corresponding quarter reflecting an increase of 24%. Of this, the commission, exchange, loan processing charges, etc representing core fee income raised by 13% from Rs. 47 cr in Q4 FY 14 to Rs. 53 cr in Q4 FY 15. Treasury profits comprising both domestic and forex treasury, increased from Rs.15 cr to Rs. 42 cr or by 180%. Out of this, the domestic treasury gains is Rs.22 cr. On the Forex side, the profits in current Q4 was Rs.20 cr against Rs.10 cr in corresponding Q4. Of this about Rs.16 cr of forex profits was attributed to integrated treasury operations deploying surplus funds on the back of lower credit growth. Had these funds been deployed in domestic money market, the interest arising therefrom would have resulted in higher interest income, NII, NIM and Yield on Fund. Nevertheless the current strategy was deployed to gain more profits. The third large component of other income being the recoveries in the written off accounts amounted to Rs 10 cr as against Rs 23 cr in the corresponding Q4. The Non interest income for the whole of FY 2015 stood at Rs. 404 cr up from Rs.280 cr in the corresponding period last FY 2014, a 44% increase.

Other operating expenditure has increased by 4% in Q4 FY 15 from Rs.126 cr to Rs.131 cr due to lower depreciation by SLM and savings on data centre alignments. For the FY 15 it rose from Rs. 458 cr to Rs. 519 cr registering an increase of 13% due to normal increase in expenses like Salaries, Rent, Electricity, Insurance, Depreciation, etc. Whole salary expenses in FY 15 grew by 13%, other expenses also increased by 13%.

The operating profit for Q4 has thus increased by 24% from Rs.144 cr to Rs.179 cr. For the FY 15, the operating profit has increased by 19% from Rs. 581 cr to Rs. 693 cr.

For Q4 FY 2015, the total provisions has increased by 50% from Rs.61 cr to Rs. 91 cr due to provisions for ex-gratia payments and NPA provisions. We have provided Rs. 32.50 cr towards taxation in Q4 FY 15 as against Rs.31.00 cr for the corresponding period. The total provisions for the FY 15 increased by 32% from Rs.234 cr to Rs.309 cr. Taxation provision to PBT in FY 15 was at 24%.

The Companies Act, 2013 requires fixed assets to be depreciated based on the useful life of the asset. Earlier, we have been depreciating fixed assets at the specified rates under WDV method except for computers and systems related assets which are depreciated under SLM over three years as stipulated by RBI.

Adopting the rates based on useful life as required under the new Companies Act, 2013 we have provided depreciation on all assets uniformly under SLM. This has resulted in a reversal of depreciation provision of Rs. 10.89 cr pertaining to earlier years till 31.03.2014. We have shown it as an exceptional item of income in the P & L A/c.

We have created a provision of Rs. 10 cr towards ex-gratia payments pending finalization.

PAT for the fourth quarter thus has increased by 19% from Rs. 83 cr to Rs. 99 cr. For FY 2015 the same has increased by 12% to Rs.395 cr from Rs.347 cr last year.

Return on Assets for the year ended FY 2015 improved to 1.49% Vs 1.44% in the corresponding period and in Q4 the same was 1.45% vs 1.34%. The Return on equity stood at 16.91% for FY 2015 and 15.13% for Q4 FY 2015, vis 19.08% & 17.06% respectively, mainly on account of fresh infusion capital by way of QIP in Q2 FY 2015.

Cost to income ratio decreased to 42.83% for FY 15 from 44.10% in FY 14. Similarly the cost to income ratio stood at 42.34% for Q4 FY 15 as against 46.66% last year Q4 FY 14.

For Q4 FY 2015, the additions to NPA account were Rs.109 cr vs Rs. 178 cr in the corresponding Q4 last year. For the FY 15, the additions were Rs. 425 cr vs 456 cr.

One a/c in iron & steel industry with outstanding of Rs.45 cr expected to be restructured in the last 2 quarters was classified as NPA. Other than this, there are no major additions to NPA in this quarter.

During the quarter we have sold assets to ARC by way of SR to the tune of Rs.60 cr. With this, the Gross NPA for Q4 FY 2015 stood at Rs.336 cr which is 1.86% of Gross Advances Vs 2.12% in the sequential quarter Q3 FY 2014. The Net NPA stood at Rs.233 cr which is 1.30% of Net Advances Vs 1.31% in the sequential quarter Q3 FY 2015.

Only one account was restructured in Q4 FY 2015 to the tune of Rs.3.50 cr. Though regulatory forbearance comes to an end on 31.3.2015 we have not restructured accounts except where we are confident of viability. The restructured standard advances currently stands at Rs.260 cr which is 1.44% of our Gross advances. We have received a net payment of Rs.9.50 cr in restructured standard accounts in the FY 2015.

With this I conclude and over to you for questions.

Thank you all!

Question & Answers session follows…

The first question is from Mr. Hardik Doshi:

Mr. Hardik Doshi, Voyeger - Just want to ask about the loan book growth guidance for FY 2016 and at the end of Q4 FY 2015 there was a pick up on the same. Can you just give some more details on guidance of loan book growth in various sectors and Industry as a whole?

Dr. N. Kamakodi, MD & CEO: Yes, I am expecting that what are all the sprouts we saw in the last quarter will continue or not, we have to get a signal for atleast one or two quarters in FY 2016. So on as is where is condition we have given this guidance and it doesn't mean that if there is an opportunity for the growth we are going to stop growing and we are keeping all the options open but the overall probability looks like around 12% - 15% growth for FY 2016 and we have grown by 11% for FY 2015. It could be revised if we saw firm growth in the coming quarters of FY 2016 and we don't want to extrapolate the growth what we have seen in Q4 FY 2015 by way of excel sheet hike. So, if things going better, we will perform better and if the overall market conditions are not favourable, we should achieve the target what we have given is the bare minimum for FY 2016.

Mr. Hardik Doshi, Voyeger - Got it, OK sir. We have seen there is a de-growth in Large Industries and Gold loan portfolio on y-o-y basis as well as sequential and rest of the portfolio is growing around 18%. Has large industries and gold loans are bottomed out and start growing or expect further de-growth?

Dr. N. Kamakodi, MD & CEO: The incremental de-growth is by and large 90% - 95% over and there could be a few residual things that could happen on gold loan. I got your question that if there is a little chance for de-growth why we can't plan growth of 17% - 18%. It now looks like if we once will get a couple of good quarters in the new financial year and the signals just getting turned up and firm happenings, we have to think how it moves forward.

Mr. Hardik Doshi, Voyeger - OK sir. In the Asset quality front, one lumpy account in Iron & Steel that turned in to NPA. Going forward other any more lumpy account you foresee currently?

Dr. N. Kamakodi, MD & CEO: We don't have any lumpy account as we have done in the past and at the same time I cant say there is nothing and what I can say is that for example if you look into the SMA 2 accounts more than 5 cr and all what we regularly declared to the number whatever we have around 250 to 300 crs of accounts which are frequently coming again and again in the system but it doesn't mean that everything will go bad. What it looks like is that we don't have anything what we have done in the previous two years that few accounts having more than 100 crs exposure went bad and we don't have anything like that as of now in hand.

Mr. Hardik Doshi, Voyeger - Got it sir. On the Spice Jet front, you have said 100 crs have been repaid and the remaining 100 crs was stuck due to some problem and when you can expect for repayment?

Dr. N. Kamakodi, MD & CEO: They have been meeting all our repayment obligations without any problem up to now. As I have explained in the previous quarterly results I don't anticipate any problem on that particular account. They have repaid 100 crs and after that the particular issue happened and they have now moved to Court for further appeal. All these procedures are expected to clear after the Court re-opens after vacation. We will get a firm signal whether it is going to be a lengthy process or the process could happen in quicker period of time, depending upon that they will take a call how to close the account and what are all the alternate arrangements to be taken. We are having close discussion with the management and I don't anticipate any problem because of that as I have been continuously discussing on that front.

Mr. Hardik Doshi, Voyeger - Thank you sir and that's all from my side.

Next question is from the line of Mr. Sunil Jain from Aditya Birla:

Mr. Sunil Jain – Good evening sir. Congratulations. Good set of numbers. In the details of your advances growth portfolio there is a growth in Personal loans to the tune of Rs.160 crs and other loans to the tune of Rs.500 crs and secondly the wholesale trade grown by Rs.410 crs and of course the growth is largely in SME. How you have been able to grow in the personal loan category and whether it is secured or un-secured? Can you show some light on that and in last quarter little there is some increase in the agriculture jewel loan portfolio. Just want to know what are the ground level realities?

Dr. N. Kamakodi, MD & CEO: If you look into the quarter to quarter growth nothing has happened majorly in between the sectors and for example even if you compare with 31.03.2014, the percentage of textiles portfolio shows the same 8% to total and perhaps iron & steel reduced from 6% to 4% mainly because of few accounts turned down to NPA. If you look into all individual segments how things have moved in between year to year, no major change in the overall composition of the advances. You can see in the Rs.1800 cr of incremental advances, Rs.1200 crs came from MSME which is our core area. On Gold loan front particularly there is a major de-growth in the non-agri gold loan. In fact Mr Sundar also explained about 2 – 3 years back when the gold prices were hovering high we had given loans around 2100 – 2200 per gram. When the gold prices crashed, some body asked me how much loss you are anticipating on the gold loan portfolio and I said there won't be any capital loss and there would be interest loss and I have mentally prepared for a loss of about 5 crs. But now I have to book around Rs.8 cr of interest loss on that particularly portfolio which we have already provided as Mr. Sundar rightly pointed out in his remarks. There is no major change in the overall composition in the incremental advances look from a year to year basis.

Mr. Sunil Jain – Personal loan grown from Rs.330 cr in March 14 to Rs.500 crs in March 15 and in all other loans from Rs.400 crs to Rs.900 crs. These are all whether backed by collateral, secured or unsecured?

Dr. N. Kamakodi, MD & CEO: Generally bulk of these are unsecured. For example the smaller loan ticket size like Karur Vysya Bank employees taken loan for ESOP we have given them also falling under this category. These are all the small ticket loans and one time requirement.

Mr. Sunil Jain – Is there any risk on that portfolio?

Dr. N. Kamakodi, MD & CEO: Last year that portfolio was 2% and this year it stood at 3%. We don't see any risk on that portfolio and there is no major change in the strategy due to this.

Mr. Sunil Jain – Housing loan portfolio showing good growth now and what is your opinion on that?

Dr. N. Kamakodi, MD & CEO: I don't consider that this portfolio will be adding lot of profitability to the system and there is some incremental take off in that. If opportunity comes we will be selling the same to refinance companies and may avail refinance from National Housing Bank.

Mr. Sunil Jain – Another question on the CASA front – now it is showing about 18% which is good and can you just show some light on that how you will maintain the same?

Dr. N. Kamakodi, MD & CEO: CASA shows 18% mainly because there is not much growth on the deposits. I don't want to take credit for the CASA growth as a percentage or extrapolate will be increasing by 2% every year and don't anticipate too much in that.

Mr. Kashyap Javeri : I have one question on exposure, Large exposure, just want to check up the top 20 exposure , what would be the % of top 20 exposures on the total loan book?.

Dr. N. Kamakodi, MD & CEO: Top 20 group borrowings amounting to 12% of our advances ie Rs.2150 Cr.

Mr. Kashyap Javeri : Out of this top 20 near Rs.2000 plus Cr how much would have been already part of the restructuring or Gross NPA number?

Dr. N. Kamakodi, MD & CEO: Basically in restructured book we hardly about 1.5%. Out of our problematic account whatever we had, about three or four account have already been declared as NPA. Many of the accounts already sold to ARC. We don't have any segment which will turn in to NPA.

Mr. Kashyap Javeri : Three or four accounts which you have mentioned could be probably part of Gross NPA or restructured account?

Dr. N. Kamakodi, MD & CEO: It is a part of SR (Security Receipts.)

Mr. Kashyap Javeri : It will be part of top ten accounts?

Dr. N. Kamakodi, MD & CEO: Yes, it is a part of top ten accounts.

Mr. Kashyap Javeri : Thus three or four NPA account have been converted in to security receipts. That is from my side. Thank you.

Mr. Renish Patel : Good evening sir. My question is on operating cost. What is the branch expansion plan and you have added 50 branches during the year and cost has moved and increased to 13%. What is the branch expansion plan and how the operating cost will be moving further?

Dr. N. Kamakodi, MD & CEO: As I told you in the last con call we will review it after opening the 500th Branch. This year also we should be opening between 50 to 75 branches. It should be happening in the 4th quarter.

Mr. Renish Patel : You mean last quarter of FY 16?

Dr. N. Kamakodi, MD & CEO: Yes last quarter of FY 16. Under the scenario year as a whole we would be closing the year with the cost to income ratio of 43% - 44%.

Mr. Renish Patel : It will be marginally up from the current level.

Dr. N. Kamakodi, MD & CEO: Yes.

Mr. Renish Patel : That is from my side .

Dr. N. Kamakodi, MD & CEO: Better to conservatively assume that side.

Mr. Sunil Jain from Aditya Birla : Small clarification on your ARC. In ARC, the total SR is now 373 Cr. So what is the provision you have provided as of now and what is the time period you expect for redemption?

Dr. N. Kamakodi, MD & CEO: As I told during my initial I was expecting at least one third of the recovery to be happened before the completion of the FY 2015. That did not happen. Basically what I can clearly say is that all the assets are having full collateral and the recovery and the conversion into cash will happen but it looks like it is getting delayed more than what we actually anticipated. Based on the feedback what I get may be like say, before the end of the current year we should be liquidizing about 1/3rd of the outstanding balance and the balance will be in near future and as of now we don't have any provision on that.

Mr. Sunil Jain from Aditya Birla : But do you expect any further loss on this?

Dr. N. Kamakodi, MD & CEO: No, I don't expect any loss on SR front honestly I don't expect any loss to happen.

Mr. Sunil Jain from Aditya Birla : And typically you would have provided 30% of the balance amount.

Dr. N. Kamakodi, MD & CEO: It is basically, after we received the cash from the ARC, when the ARC buy your assets, they put their money upfront may be now 15% and earlier it used to be more or less than to that. Unless and otherwise the collection crosses over and above the SR amount they have offered, they will also be incurring the loss. But the longest timer permitted by the regulators is 5 years. But things should happen much before that. Honestly we don't expect any loss in liquidation of SR into cash.

Mr. Sunil Jain from Aditya Birla : Thanks

Next question is from Deepak Agarwal from M/s Axis Mutual Funds.

Deepak Agarwal : Sir, just reconfirm us the two numbers between 250-300 on SMA.

Dr. N. Kamakodi, MD & CEO: Its an incremental addition we did in the last couple of years.

Deepak Agarwal : What would be the SMA we have for the system in numbers?

Dr. N. Kamakodi, MD & CEO: Right now I don't have the exact numbers in hand and I am sure it is not alarming.

Deepak Agarwal from M/s Axis Mutual Funds: what is the SMA two number for two quarters back?

Dr. N. Kamakodi, MD & CEO: From our peak level there is atleast 20%-25% reduction now.

Deepak Agarwal from M/s Axis Mutual Funds: In terms of understanding the banks growth potential in Tamil Nadu, where do you think is the point that we have to go outside Tamil Nadu?

Dr. N. Kamakodi, MD & CEO: Considering the banks branch network and business parameters, 68% of advance portfolio is from Tamil Nadu. We will be exhausting our growth potential in Tamilnadu when we will be crossing 500-600 new branches in Tamil Nadu, where we are 300 now. On incremental basis, in the next 4-5yrs, 50% of the new branches would be opened in Tamil Nadu and 25% in other southern states and balance in the rest of country. Our main focus will be on south at the same time we take calculative steps looking forward for future growth opportunity. We will be exhausting growth potential Tamilnadu when we cross 500-600 branches. 500-600 branches shall be the ideal number on today's business to get the maximum utilization of network distribution in Tamil Nadu.

Mr. Vinay Arya from ANR Advisors: Industry wise break up of Restructured book?

Dr. N. Kamakodi, MD & CEO We have around a total business of 260 crs from 14 accounts and in that you will be having not less than 200 crs from the power intensive manufacturing sectors distributed across various fields and we have one hotel in that particular segment.

Mr. Vinay Arya from ANR Advisors: Sir, how much would be from Iron & Steel sector?

Dr. N. Kamakodi, MD & CEO It will be not less than 50% of the Iron and Steel i.e., around 75 crs.

Mr. Vinay Arya from ANR Advisors: Sir, what is the next largest industrial sector after Iron and Steel?

Dr. N. Kamakodi, MD & CEO We don't have many sectors in that but mainly we have TANGEDCO consisting around 60 crs., remaining all will be between 15-20 crs base.

Mr. Vinay Arya from ANR Advisors: Sir, what are all the LAP (Loan Against Property) portfolio currently?

Dr. N. Kamakodi, MD & CEO Overall, the Real estate sector including the LAP segment is about maximum of 4%-5%. In this we are not very aggressive in LAP, we don't aggressively promote that as a product per-se. Property could be used as collateral for Cash Credits. We are not aggressively promoting this as a product. This Commercial rate of 5% includes LAP, loan to builders etc., and encompasses all sectors and as regards LAP I don't expect our LAP will be more than 1% of the banks loan book.

Mr. Ranish Patel from Antique Capital: Why we are not going outside Tamilnadu and what is the strategy behind it?

Dr. N. Kamakodi, MD & CEO We have opened about 50% of our branches Tamilnadu now, as we are able to achieve break even much quicker in Tamilnadu compared to other states. We are balancing both current and future earnings, we will be exhausting Tamilnadu in the next 4-5 years and at the same time we need presence in other states also and as a reason we are opening an incremental 25% in other 3 southern states combining Andhra Pradesh, Karnataka and Kerala. The rest 25% of branch openings (4-5 branches each) in other states progressively. There is no point in growing for the sake of growth.

We are very much aware of our limitations in focusing only on TN and at same time try to balance keeping the cost factors under control to achieve quicker BEP keeping opening new branches opportunity for future growth also.