CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – SEPTEMBER 2017

Good evening everybody, Dr. Kamakodi here.

Hearty welcome to all of you for this conference call to discuss Q2 FY 2018 financial results of City Union Bank. The Board of Directors adopted the unaudited results today at Chennai.

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

It is one more usual quarter without much surprise.

The highlights of Q2 FY 18 are:

- ✓ We have recorded 9% growth in Deposits, 14% growth in Advances resulting in business growth of 11%.
- ✓ The growth of Operating Profit, PAT and NII was 35%, 17% and 18% respectively for Q2 FY 2018 over corresponding quarter.
- ✓ Gross NPA and Net NPA stands at 3.07% and 1.76% respectively as at 30.09.2017
- ✓ The other ratios like ROA , RoE are in tune with our track record of 1.5% + and 15%+ respectively

The Q2 and half year performance are in tune with our expectations which we have shared with you during August 17. We still continue with our expectation of achieving a credit growth of 15% -18% for FY 2018. Q3 growth may look higher because of base effect but year end growth should be 15% - 18% on as is where is condition.

Slippage for the current quarter is Rs.146 cr translating into an annualized slippage ratio of 2.31% to closing advances figure. We have been repeatedly mentioning in our concalls (last 8 quarters) about 2-3 problematic accounts of Rs. 50 cr & above showing signs of stress. Of the above accounts, one account slipped to NPA during first quarter from Iron & Steel sector amounting to Rs.93 cr. The other account in Food Processing sector amounting to Rs.74 crs turned to NPA during this quarter. Though there was representation for considering this account as discussed during our June con-call to go for S4A option, we have decided to not to accede to the request. We have provided Rs.45 cr for this account which is 60% of the outstanding amount. As we discussed during June quarter con-call, even though there may be variation in the slippage ratio during the quarter, we are doing our best to control our overall slippage ratio for FY 2017-18 will be around 1.75% - 2.00% of closing advances.

As discussed during last concall, 4 large NPA accounts sold to ARCs in earlier years constitutes 90% of our SRs in FY 2016 and recovery had started in 2 of the 4 cases. During the last year, there was about Rs.27 cr worth of cash recovery has happened in those cases and we are expecting around Rs.10 cr during this FY 2017-18. Though the schedule of recovery goes up to 2022 we had made provision of about Rs.115 cr to take care of the future haircuts which includes an amount of

Rs.42 cr provided in Q2 FY 18. The expected collection in SR during the current year is Rs. 10 cr and we have made a recovery of Rs. 26.66 cr last year.

During the quarter we had not restructured any accounts and we had not made any sale to ARCs.

10 year bond yield was 6.44% on 1st / 2nd August 2017 down from 6.51% as on 30th June 2017. We took a call that yield will increase & started booking profit from AFS / HTM in the range of 10 year bond yield of 6.40% - 6.60%. After we booked our profit, the 10 year yield upto 6.93% on 7th November 2017 proving our call correct. Have we not booked the profit, it would have been a loss of opportunity. We took this call eventhough the sale made is more than 5% of the investment book and we need to make disclosure. We have booked Rs.44.71 cr in Q2 on Profit on sale of securities.

During the quarter, we have received a net income of Rs. 12 cr by way of sale of our excess lending under Micro and General category of advances through Priority Sector Lending Certificate (PSLC) which has been accounted under Other Income.

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 1.59%, ROE is 15.37%, Cost to Income Ratio is at 37.44%. NIM is still holding at above 4%+ (4.48%) which is not sustainable. Signs of margin contraction is visible directionally but exact quantum will be known only over next 3 to 4 quarters.

We have achieved a live recovery of Rs.44 Cr during Q2 FY 18 and in Q1 we have recovered Rs.43 cr. The recovery and liquidation of collaterals is showing some positive trends but not happening in the way we would like them to be. We are putting all our best efforts to recover the dues by way of liquidation of collaterals.

We have opened 8 branches during H1 FY 2018 totalling to 558 against our plan of 50 branches for FY 2018. Of the above branches, one Rural branch has been set up as banking outlet as suggested by RBI manned by Banking Correspondent.
Looking into the overall environment,

Because of GST & disturbance to the economic activity due to last year demonitization, though we could see some incremental stress, we don’t see to that extent it is being projected outside. We are closely monitoring the situation. We agree we are putting extra efforts for collections. We hope things will improve as we move forward.

With the addition of food processing account into NPA, at this point of time we don’t have any large account, say Rs.75 cr plus exposure staring to become NPA on as is where is condition. We pray the Almighty that economic situation to improve from here and that no more large account addition to NPA.

To sum up,

It is one more usual stable quarter without much surprises. We are keeping the fingers crossed and waiting for the general economic turnaround to accelerate the growth. At the same time we definitely believe incremental pressure on asset quality will ease.

Over to CFO Shri. Ramesh.

Thank you MD sir. I am Ramesh, CFO.

Good evening everybody and thank you for attending the City Union Bank's earnings call of Q2 FY18 / H1 FY18.

Let us get into the details of the second quarter & first half results:

The Bank has shown a growth of 35% in Operating profit in Q2 FY 2018 over the corresponding period and for the H1 FY 2018 the growth was 31%.

The Net Profit for Q2 FY 18 has enhanced by 17% when compared to Q2 FY 17 and for H1 FY18 Net Profit increased by 15% when compared to H1 FY17.

The Net NPA has marginally decreased by 3 bps sequentially to 1.76% in Q2 FY2018 from 1.79% in Q1 FY2018.

During the period, our Deposits has increased by Rs.2489 cr from Rs.28393 cr to Rs.30882 cr, registering a growth of 9% on y-o-y basis. Similarly, Advances enlarged by Rs.3174 cr from Rs. 22215 cr to Rs.25389 cr translating into a 14% growth. Thus, the total business grew by 11% on y-o-y basis.

CASA has recorded a growth of 21%, in absolute terms by Rs.1215 cr from Rs.5879 cr to Rs. 7094 cr. The share of CASA to total deposits which was 21% for Q2 FY17 has increased to 23% in Q2 FY18.

CA portion increased by 27% and SA portion by 17% on y-o-y basis.

The Cost of Deposits for Q2 FY18 decreased by 60 bps to 6.26% from 6.86% compared with Q2 FY17. Cost of Deposits for H1 FY18 was lower at 6.35% vs 6.99% in H1 FY17.

The yield on advances for Q2 FY18 stands reduced to 11.53% as compared to 12.19% for Q2 FY17. The yield on advances was at 11.65% for H1 FY18 vs 12.28% in the last year.

The Net Interest Income for Q2 FY18 has improved by Rs. 54 cr from Rs. 301 cr in Q2 FY17 to Rs. 355 cr in Q2 FY18 registering a growth of 18%. NII for H1 FY 2018 improved by Rs. 116 cr from Rs. 581 cr in H1 FY17 to Rs. 697 cr in H1 FY18.

The Net Interest Margin for Q2 FY18 has improved by 26 bps to 4.46% compared to 4.20% in Q2 FY17. NIM for H1 FY18 was at 4.47% vs 4.14% in the corresponding period last year. Even though our NIM has increased in the last six quarters, we are expecting contraction in the coming quarters.

The non interest income of the bank in Q2 FY18 has improved to Rs.155 cr as compared to Rs.104 cr in the corresponding quarter on account of profit made in domestic treasury, suit recoveries and income earned on account of sale of excess lending of priority sector advances under PSLC. The treasury profits comprising both domestic and forex segments increased by 55% from Rs.42 cr in Q2 FY17 to Rs.65 cr during Q2 FY18. Suit recoveries increased from Rs.9.53 cr in Q2 FY 17 to Rs.18.94 cr in Q2 FY 18. We have made a profit of Rs.11.76 cr by way of sale of excess lending of priority sector advances under PSLC in Q2 FY 18.

The non interest income for the half year has increased by 35% from Rs.215 cr in H1 FY 17 to Rs.291 cr in H1 FY 18. Income from domestic and forex treasury increased from Rs.91 crs in H1 FY 17 to Rs.104 in H1 FY 18.

Operating expenditure has increased by 13% in Q2 FY18 to Rs. 190 cr from Rs. 169 cr incurred in the corresponding quarter last year. For H1 FY18 Operating Expenses increased to Rs. 371 cr from Rs. 324 cr in H1 FY17. The employee cost increased from Rs. 77 cr to Rs. 83 cr on Q2 to Q2 basis and it increased from Rs. 140 cr in H1 FY17 to Rs. 159 cr in H1 FY18. The other operating expenses increased from Rs. 92 cr in Q2 FY17 to Rs. 107 cr in Q2 FY18. For H1 FY 17 it was Rs. 184 cr vs Rs. 212 cr in H1 FY 18. The increase is on account of general increase in rent, taxes (GST), lighting, repairs etc.

Thus, Cost to income ratio decreased to 37.26% for Q2 FY18 from 41.60% in Q2 FY17. For the half year ended H1 FY18 the ratio is 37.54% as against 40.68% for H1 FY17.

The operating profit for Q2 FY18 has increased by 35% from Rs. 237 cr to Rs. 320 cr in the corresponding quarter. Similarly operating profit for the H1 FY18 increased by 31% to Rs.617 cr from Rs.473 cr for the corresponding period last year.

For Q2 FY18, the total provisions made was Rs.175 cr an increase of 55% compared to Rs.113 cr in Q2 FY17. Provision for Bad and Doubtful debts increased from Rs.53 cr to Rs.87 cr for Q2 FY18 on account of movement in category of NPA assets. In Q2 FY 18, we have provided Rs.41.75 cr of provision towards security receipts to take care of the future haircuts.

For the half year ended 2018, the total provisions increased by 47% to Rs.332 cr from Rs.225 cr in H1 FY17. The details of provision made during the quarter is as follows;

Rs. in Cr

Provision for NPA	87.00
Provision for Income Tax	46.00
Provision towards depreciation in Investments (SRs)	41.75
Provision towards Country Risk	0.55
Total	175.30

The details of provision made for the half year is as follows;

Rs. in Cr

Provision for NPA	173.00
Provision for Income Tax	86.00
Provision towards depreciation in Investments (SRs)	64.75
For investment shifting	10.24

Standard Assets provision written back	-0.90
Write Back provision on Restructured Assets - NPV	-1.70
Provision towards Country Risk	0.55
Total	331.94

Thus, PAT for the second quarter thus increased by 17% from Rs. 124 cr in Q2 FY17 to Rs. 145 cr in Q2 FY18. For H1 FY18, PAT registered a growth of 15% from Rs. 247 cr last half year to Rs. 285 cr.

Return on Assets stands at 1.58% for Q2 FY18 as against 1.50% for the corresponding quarter last year while the ROA for H1 FY18 stood at 1.59% vs 1.53% for the corresponding period last year. The Return on equity stood at 15.24% for Q2 FY18 against 15.28% for Q2 FY 17. Similarly for H1 FY18, ROE stands at 15.39% Vs 15.66% in last year corresponding period.

The Capital Adequacy Ratio (as per Basel III) stands at 15.31% of which core CRAR at 14.86% for H1 FY18.

For Q2 FY18, the gross additions to NPA is Rs. 147 cr compared to Rs. 122 cr in Q2 FY 17 and Rs. 148 cr in Q1 FY18. We have recovered a sum of Rs. 44 cr in NPA accounts during the second quarter. For H1 FY18, the total slippages stands at Rs. 294 cr as against Rs. 222 cr in corresponding period H1 FY17.

Accordingly, the Gross NPA for Q2 FY18 stood at Rs. 780 cr equivalent to 3.07% of Gross Advances Vs 2.69% at the close of corresponding quarter last year Q2 FY17. The Net NPA stood at Rs. 441 cr which is 1.76% of Net Advances Vs 1.63% in the corresponding quarter last year Q2 FY17.

We have not sold any assets to ARCs during this quarter.

No account has been restructured during Q2 FY 18. The total outstanding restructured accounts stood at Rs.15 crs as on 30th September 2017 as against the outstanding of Rs.133 cr in Q1 FY 2018 (sequential quarter). The reduction in restructured accounts compared to last quarter mainly due to one account slipped to NPA to the tune of Rs.74 cr and against that we have provided Rs.45 cr (60%) as provision. Also, one account completed its 2 years of restructured standard period to the tune of Rs.42 cr.

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

Thank you all!

Over to questions:

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. First question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: Good afternoon Sir. Thanks for the opportunity. Sir I just wanted your comments on the margin outcome of 4.5% in the context of two variables, the first is our savings account deposits have declined from a peak of about Rs. 4700-odd Crores to Rs. 4600 Crores and the SA growth is actually weaker compared to most of the other private peers despite which our margin outcome is so strong and second, we have also sold PSLC certificates during the quarter and I would assume if we would not have sold those certificates, our margins would have been even higher. So any thoughts on these two?

N. Kamakodi: The PSLC certificate profit is booked in other income and it is not booked as interest income.

Sri Karthik: But the advances should move out of the balance sheet?

N. Kamakodi: No. There is a difference. The PSLC is only a certificate that is traded and the advances will remain in our book. It goes through the e-Kuber platform provided by RBI and it is not like Inter-Bank Participation Certificate (IBPC). In case of IBPC which moves from Advances and in PSLC, the surplus is traded on the e-Kuber platform. Number two, as we have been clearly and consistently telling that we had never been a great CASA bank in the past and I do not see in the near future that we will be a strong bank in terms of the CASA. Leaving that aside, like say our margin what was happened actually is that right from the beginning the reduction in the cost had been more than the reduction in the yield. From the past couple of quarterly calls we have been telling that in decreasing interest rate scenario, the margins has to contract. We are not sure how fast it is going to decrease and what is going to be the quantum as we move forward. As we have been maintaining in the past many quarters we are into the decreasing interest rate scenario and margins will contract. If you have a chance to look into our last say 15 quarters 3.4% to 3.8% is our long-term sustainable margins, which we have shown. This contraction will be towards that but do not know how many quarters it will take and how fast it will move.

Sri Karthik: Got it Sir and Sir, the second question is the government's push towards Mudra Yojna, especially post recapitalization, is there any particular increased emphasis on SMEs and whether that would hurt our relative positioning within the market, with PSU banks now looking to lend to the same customers?

N. Kamakodi: Our core area is roughly between Rs. 50 lakhs to Rs. 5 Crores, which is probably one or two shades over and above the Mudra Yojna loans. This segment is fairly organized. You cannot consider it as some totally unorganized sector and almost every bank is talking that they are trying to enter into the segment and may be after some initial learning process and all, the competition is definitely going to be there in every segment.

Sri Karthik: Got it Sir and just the last question on our cost front, at 37% cost to income ratio, do you think it is sustainable?

N. Kamakodi: No we have been saying that our sustainable cost to income ratio is 38%-40%. Since you had a lot of other income particularly from that sale of priority sector certificate or the booking from treasury, the cost to income ratio looks lower. The expenditure will be by and large around this number and having some inflationary growth rate, but the 37% is not sustainable. Our sustainable range as we have been discussing with you all and which you have seen is that 38-40 is the level and in between, if you take four year in a row there could be one or two quarters where the number is even more than 40 but overall average in annual basis will be between 38% and 40%.

Sri Karthik: Right. Okay. Thank you Sir.

Moderator: Thank you. Next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia: Thank you very much. Two questions, first on the SME side of things, we have seen a lot of talk from the government that that is going to be a key thrust area where they expect PSUs to really use the capital they have been given to grow, I am curious that how we see operational challenges that prevent PSUs from effectively serving SMEs, but given those who have capital and given the pressure from above, do you see change in the competitive environment where you except to see PSUs competing much more aggressively by lowering rates coming up with better offers etc.

N. Kamakodi: See do not think that we do not have competition now, the competition is there always and from the policy perspective in public sector banks through implementation and seeing the growth probably we are another three to four quarters away we have to see, but it is not something which like say we are not used to, we have been always there in that segment.

Pawan Ahluwalia: On recoveries in the context to weak real estate market, are we able to dispose our assets and haircuts that we are taking bigger than what we expected; I need some update on that?

N. Kamakodi: The haircut is not substantially different from what we anticipated, okay. The problem is not with the price per se. The problem is with respect to the liquidity in that market and people willing to come and buy. After many quarters last year in the September and October, we saw some amount of improvement, which got stopped by the demonetization last year and slowly started showing improvement from Q4 onwards. So the expectation is that on the improvement front we are definitely seeing but it is not happening as fast as we would like them to see. Definitely some positive slow movements are there and we are closely monitoring the situation.

Pawan Ahluwalia: Got it. Thank you very much.

Moderator: Thank you. Next question is from the line of Subranshu Mishra from Motilal Oswal. Please go ahead.

Subranshu Mishra: Thank you so much. My questions have been answered.

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

Alok Shah: Thanks for opportunity and congratulations on great set of numbers. Sir I had a couple of questions and I will start with first, it is on the growth side, this 14% loan growth that we have seen and if you try to break down that we are looking at some good amount of traction on the wholesale trade side and the retail loan portfolio, is that reading right Sir?

N. Kamakodi: You might have seen that our core focus area is your commercial trading, agriculture and SMEs. The growth traction coming across all the segments, the percentage may be different here and there and one quarter, one item may be good and another quarter another would be okay, but by and large, the overall distribution is not something which is cued too much towards one or two segments.

Alok Shah: Right. Okay. You are talking about segments right?

N. Kamakodi: Yes, it is there coming across various segments.

Alok Shah: Right, but on an overall basis we stick with our guidance of 15%-18% led by the pockets that we are talking about in case of growth.

N. Kamakodi: On as is where is condition.

Alok Shah: Okay. The second question is on the SR portfolio, the last quarter, you have talked about something like Rs. 50 Crores to Rs. 60 Crores of provisions that we may require over Q2, Q4 FY2018, this time around, is there any downward revision to that estimate?

N. Kamakodi: Some recovery expectations are probably more than what we originally thought of. So, it could be that like ultimately we would like to achieve about 60% coverage ratio before say 31st March 2019. We have about six quarters to make that. In between that, probably some extra collection would even make us to achieve that 60% coverage ratio earlier also, there is a possibility. The recovery schedule given by the accounts where the resolution is over it goes up to 2022.

Alok Shah: Right, but if we were to look at things and for the kind of information that is available what is your estimate of the provisioning which may be required in the immediate quarter or is it too difficult to give a number to it.

N. Kamakodi: Yes, I am not in a position to give any number for the Q3 or Q4 now. It will be determined by the developments happening in those accounts as we move forward.

Alok Shah: Sure and may be a final question, we booked Rs. 12 Crores of PSLC income this quarter, was there anything in the earlier quarter I mean Q1?

N. Kamakodi: Yes, June it was Rs. 1 Crore.

Alok Shah: Okay. So that is nominal, it is okay and if I heard with right this PSLC of Rs. 12 Crores is already part of our Rs. 60-odd Crores of treasury income, is that right?

N. Kamakodi: No, it comes under the other income.

Alok Shah: Okay. So part of Rs. 33 Crores.

N. Kamakodi: Yes.

Alok Shah: Okay. Perfect. Thank you. That is it from my end.

Moderator: Thank you. Next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Hi Sir. Congrats on great set of numbers. Sir couple of questions, one is on our credit cost, which is currently running at significantly higher than our historical run rate close to Rs.153 Crores, but now considering we are almost done with the 33% coverage on SR which you are taking forward to 60% with no SDR, 5:25. So do you see the credit cost has picked out at current level and we will see moderation going forward or you will still want to improve the coverage ratio on NPA portfolio also, which is at 42-43% now like write off?

N. Kamakodi: We always cover our regular NPA coverage ratio with technical write offs only, so that number will be like around 60%-65% only. We do not have any plan to increase it beyond this particular number, but we would like to increase our coverage on the SR front which I discussed in the previous question in terms on the developments in those accounts which we are closely monitoring into and as I told you, our expectation on the slippage ratio is under 2% that is what we are all working very hard for that, we expect the slippage should be under 2% for the year as a whole. The credit cost will be now determined by the progress in liquidation of collaterals and recovery of the existing live accounts.

Renish Bhuva: Got your point. Okay and Sir just a followup question on this recovery part, so you have highlighted there is not any demand issue per se, which is more of liquidation or liquidity, like of liquidity in the market which is holding back the higher recovery, but I mean how are you foreseeing this recovery to accelerate I mean so are we planning to put up a separate team who can handle this recovery or what is the procedure we would like to follow to accelerate the recovery rate?

N. Kamakodi: Yes, already we have a separate task force on there and we are parallelly pursuing on SARFAESI notice, taking possession, auction, and simultaneously going on for the cases in the DRT. So if you had a chance to look into – we had recovery plus technical write off minus SR, about Rs. 63.38 Crores for this current quarter. The highest in the last 12-quarter has been about Rs.78 Crores in the Q4 last year. In 2014, our total recovery was about Rs.152 Crores then it went to Rs.165 Crores in 2015 and it went up to Rs.192 Crores in 2016. On the year-to-year basis we are recovering about 42-50% in the same year itself and this is how things are going forward and we are seeing some improvement on that and when the economic sentiments improve that number should also improve.

Renish Bhuva: Okay, so basically you are trying to say recovery will be largely linked to the overall improvement in the economy, I mean.

N. Kamakodi: Absolutely. We have been closely following that and making our best effort on a continuous basis, but the change in the sentiment is a very important thing to make prospective buyer of liquidity collateral to be purchased and the cash recovery happens.

Renish Bhuva: Okay and Sir just one last question, do you see any meaningful improvement in credit growth in Tamil Nadu itself because last couple of years it has been pretty sluggish in terms of credit growth, so?

N. Kamakodi: See now your overall country's credit growth itself is in single digit, so Tamil Nadu also it is not totally exempt from that, but our growth above the average, mainly comes from some amount of incremental switching of market share from the government-owned banks.

Renish Bhuva: Okay. Thank you Sir.

Moderator: Thank you. In order to ensure that the management is able to address questions from the all participants in the queue, we request you to please limit your questions up to two. Should you have a followup question, we request you to please rejoin the queue. We will take the next question from the line of Vikas Sharda from NT Asset. Please go ahead.

Vikas Sharda: Hi Sir. Good evening. One question on this PSLC certificate that you are saying that the advances remain in your book, so how does accounting work, it is like one-time income or I mean the interest income keeps accruing to you in your books, how does it work?

N. Kamakodi: This PSLC concept came only in the mid of the last year, whenever the required priority sector or agricultural credit we say X, I have X plus Y. I can give it in the open screen-based trading that I am selling the quantum of Y amount, the settlement is done by the RBI. So they just get the money and give it to you, which you account as profit. Similarly if I have a short fall I can buy the similar quantum and I have to pay the money. The auditors have to certify that the priority sector requirement is this much and whatever excess the bank have sold is in order, which will be cross checked during their annual financial inspection also.

Vikas Sharda: Okay so it is just like an entitlement, which you can sell, but the interest income and interest expense everything remain in your book.

N. Kamakodi: Yes and all risk, everything remains with us. Even if you take in our case we sold and got income of Rs. 17 Crores and we had some shortfall in the small and marginal farmer for which we incurred expense of Rs. 5 Crores, so net profit is Rs. 12 Crores.

Vikas Sharda: Okay and the credit risk remains with you.

N. Kamakodi: Everything remains with me; only thing is that I am selling that priority sector tag of that particular portfolio to somebody who wants that.

Vikas Sharda: All right and Sir second question is that you said Rs. 50 lakhs to Rs. 5 Crores is the sweetest part for you. Roughly can you say what percentage of loans is more than Rs. 5 Crore ticket size?

N. Kamakodi: Yes, you could say 65-74% is in the segment, about 15-20% will be over and above that and about another 10-15% will be below that number [exact numbers excluding Gold Loan – (i) < 50 lakhs – 30%, (ii) > 50 lakhs & < 5 cr – 43% and (iii) > 5 cr – 27%].

Vikas Sharda: All right. Got it.

N. Kamakodi: This PSLC is sold only for one year upto 31st March every year. So on 1st of April next year that particular advance if it remains in a book it will once again will have the priority sector tag, which I can sell next year.

Vikas Sharda: Okay. Interesting. Thank you.

Moderator: Thank you. Next question is from the line of Ankit Chaudhary from Equirus Securities. Please go ahead.

Ankit Chaudhary: Thank you Sir for the opportunity. I want to understand with respect to the branch network, we have added in five branches during the quarter and then employee addition increased to around 200 during the quarter, so just need to have a clarification that the new employee addition we have done is it towards any specific sourcing, retail sourcing thing or is it just a normal addition that you have done during the quarter?

N. Kamakodi: No actually bulk of our opening will be in Q4 and we normally take bulk of our employee, fresher through campus interviews from the colleges. They all join after their academic is over and they are put through the training and they will be ready to handle the desk particularly when we open new branches.

Ankit Chaudhary: Okay, so Sir what is the employee expenses do you expect in the second half, the growth in employee expenses?

N. Kamakodi: It is same 8%-10 % over the last year**.**

Ankit Chaudhary: Okay and Sir like with respect to the loan growth in the whole sale figures that have come in during the quarter, so would we assume this primarily towards the normal requirement of working capital or would there be also component wherein some of the funds are getting blocked due to GST and that has triggered a higher working capital requirement?

N. Kamakodi: Yes, it will be a small quantum. We are yet to announce the scheme to fund the GST. We are in the process of making a scheme, bulk of it could be either the normal increase because of their growth and are because of the acquisition of the new customers.

Ankit Chaudhary: On the list of NCLT-referred account, which RBI has released, the first list and the second list, we do not have any exposure to either of those.

N. Kamakodi: Yes we have only one, which is Orchid Chemical, which the account have been fully provided and written off three, four years back.

Ankit Chaudhary: Okay. Fine Sir. Thanks a lot.

Moderator: Thank you. Next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Thank you Sir for taking my question. My first question is on PSLC we have had Rs. 17 Crores of gross income in this quarter, this is against how much of portfolio outstanding?

N. Kamakodi: See against to the requirement of 40% priority sector, we normally have about 50% of our total advances comes under the priority sector. So that extra 10% we can sell it in the PSLC. Similarly on agriculture even though we have almost full on agri credit, we had shortfall in this small and marginal farmer for which we had to make some purchases. So it became that 17 minus 5, 12 is our net profit.

Nirmal Bari: No Sir, my question was that this Rs. 17 Crores of income that we have made on the PSLC certificate, those PSLC certificates would against certain amount of advances, so what was the advances that we have…?

N. Kamakodi: Yes, normally the prevailing rate is about 1.5% or so, so it is about Rs. 1000-odd Crores incremental advances the priority sector tag which we have sold. Exact number I do not have but this should be the round number I mean in other words we had about 1000-1200 Crores extra priority sector which we sold and we got this Rs. 17 Crores income.

Nirmal Bari: We have completely sold and there would not be anything in Q3 or Q4?

N. Kamakodi: See we have some, which depending upon the market and depending upon the rate we may be selling, another Rs. 300-400 Crores is something which we can further sell but the rates are also fluctuating depending upon that, you will not be able to quantify a number for that.

Nirmal Bari: Sir PSLC certificate income if I am correct is the highest if we sell the certificates in Q1, so.

N. Kamakodi: No not that way, it is even if you sell in the Q4 or you sell it in the Q1 it is taken for the whole financial year.

Nirmal Bari: Okay and my second question was on what is our technically written off pool at present?

N. Kamakodi: Total technical written off pool, it is about Rs. 450 Crores.

Nirmal Bari: Rs. 450 Crores and against this how much is the collateral that we are looking to liquidate?

N. Kamakodi: Yes, almost in that about couple of accounts are consortium accounts, the total quantum could be about Rs. 100 Crores. So remaining for which it will be like our other NPA accounts.

Nirmal Bari: Okay, so in the other NPA accounts we would be having sufficient collateral?

N. Kamakodi: Yes.

Nirmal Bari: Okay and Sir what would be our current outstanding SR?

N. Kamakodi: SR is Rs. 345 Crores.

Nirmal Bari: Rs.345 Crores and if I heard you right in the beginning, we have provided Rs.115 Crores against this?

N. Kamakodi: Yes.

Nirmal Bari: Okay Sir and my last...

Moderator: Excuse me this is the operator, Nirmal Bari, may I request you to please rejoin the queue?

Nirmal Bari: Just my last question, there is no big account at present in the watch list do we anticipate that in the second half we would have lower slippages?

N. Kamakodi: Yes, I would rather tell that after seeing that. I do not want to give anything now and that is why I stopped with saying that my overall slippage ratio should be less than 2 for which we are working very hard for that.

Nirmal Bari: Just annual guidance from you?

N. Kamakodi: We have given the annual guidance of 1.75% to 1.99% and we are sticking to that.

Nirmal Bari: Okay. Thank you Sir.

Moderator: Thank you. Next question is from the line of Sreesankar R from Prabhudas Lilladher. Please go ahead.

Sreesankar R: Sir good afternoon. Quick two questions; Sir you mentioned about Rs.350 Crores or so in the SR book when the SRs were sold, did we take any haircut at that point of time?

N. Kamakodi: There are four accounts which constitute around 90% of total SR of Rs.345 cr. Out of that four, we had to take haircut of about 40% for one particular account, all were roughly about Rs.70 to Rs.100 Crores remaining three we were able to sell almost with the haircut of less than 10% or so because of the availability of collaterals and all. In that 4 accounts, for two the resolution is over and we have started receiving a repayments and repayment schedule goes around three to four years and for remaining two the resolution is pending now.

Sreesankar R: Okay, out of the four, which constitutes 90% of the SR, one account do took a 40% haircut and remaining where around about 10%?.

N. Kamakodi: Yes, 10%-15%.

Sreesankar R: Okay, now having seen that over the last two years, we have already provided for Rs.115 Crores does it mean that you are actually seeing that probably we will need to have a bigger haircut in that entire thing or non recoverable portion that is what it suggests, is it?

N. Kamakodi: See it is more what you call provision for on a conservative outlook as we have been telling our past experience in even our regular NPA account we can able to recover about Rs.70 Crores for every Rs.100 slippage over the period of a three to four years, which means your loss on default at an average at a portfolio level is about 30%. Still we maintain a coverage ratio of about 60%, so like that it is the strength you will need to pull up and after we made some recovery on the SR front we may also think of selling a few other cases, which are hard next to crack in the future, you do not know, so we will take a call once the substantial recovery in the current SR book is made.

Sreesankar R: Okay. Got your point. Second if I may ask another question, this was regarding your cost to income ratio, while your NIMs remained invariably higher, compared to the competition or the peers, will you be able maintain your cost to income at these level which is one of the lowest valuation?

N. Kamakodi: The NIM stands higher because of our loan product mix and since we are not into too much of corporate lending and all we are able to manage our yield. The present level of cost to income ratio around 37%-38% is not a sustainable level. Our long term average has been in between 38 and 40 for an annualized basis but there could be quarterly aberrations.

Sreesankar R: Yes that is right and the last question, Sir you mentioned you are mostly into working capital finance, and I heard you say that probably a lot of, to some other growth has also come from incrementally from a shift or change over from PSU banks etc., so are you saying that in even if the capex program does not pick substantially our growth around about at 18% guidance that you have given is sustainable?

N. Kamakodi: I am giving for the current year, be very clear, you cannot have a working capital growth without having an investment in your capital investment.

Sreesankar R: Capex program, point taken, yes.

N. Kamakodi: So on as is where is condition and whatever guidance we have given for the current year, we should be in a position to achieve whatever we have told you and we are doing our best to achieve that.

Sreesankar R: Thank you.

Moderator: Thank you. Next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Thanks for the opportunity. Sir if you can provide us a number for SMA-II and how it has been moving for last two to three quarters?

N. Kamakodi: As I told two to three quarters before, I will not be discussing more about the SMAs and that is why we started giving the guidance on the slippage ratio. Since you have asked that question, as per CRILC reporting it is 3.92% for September. If you look into the movement, it used to be about over 5% in 2016 March and even up to June last year and it was around 3% in March 2017 and then it increased to about 4.5% then currently it stands about to 4%, this is the Rs.5 Crores and above CRILC exposure SMA-II that we are giving it to RBI. See it is better to say that there is no point in drilling too much into that.

Darpin Shah: Correct. I agree to. Thanks Sir. Sir one last, did I here correct, you want to mix 60% provisions on SR?

N. Kamakodi: Yes and it will be over a period of six quarters.

Darpin Shah: Okay Sir any specific reason for this faster provisions or higher provisions in security receipts?

N. Kamakodi: Even if it is SR in other way this is an NPA, so in NPA you maintained 60% coverage ratio, the prudence say that the similar amount should also be there.

Darpin Shah: Okay. Got the point Sir.

N. Kamakodi: You cannot exactly expect how the ratings and all will change over a period of time. We have to be having sufficiently prepared for what the hits that could come into, it is basically a matter of prudence.

Darpin Shah: Okay great. Thank you very much Sir.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I will now like to handover the floor to Mr. Ravi Singh for his closing comments. 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: I would like to probably convey my thanks from the City Union Bank front. I thank all of you for participating in this call. Those who still have any numbers or any clarification or any questions, number of CFO is given and Mr. Jayaraman number is also most of us may know. You can get in touch privately and you can get doubts cleared and once again I thank you all for participating in this conference and expect your wishes as always. Thank you all.

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