CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – JUNE 2015

Good evening everybody, Dr. Kamakodi here.

Thank you for attending earnings call of the first quarter ended 30.06.2015.

The Board of directors approved the results on this morning for the first quarter Q1 FY 16 and the details of which is already been updated in our website and circulated.

I will spend some time in discussing the outlook & current scenario to start with and Mr. S. Sundar, Advisor and Mr. V. Ramesh, our new CFO will analyze the results of Q1 FY 2016 and towards at the end we can have Q & A session.

Most of the banks have already declared the results. PSU banks have shown mixed results with many of the banks showing negative growth in profitability. New gen banks have declared good results both on profit growth and business. Old gen banks have shown muted growth on business and moderate growth in profitability. Our numbers are somewhere in between. Overall, it was a stable quarter. For the first time our PAT has beaten Rs.100 cr mark by a good margin.

We discussed during the last quarter con call that we could see some positive sprouts and that we believed firm growth should be visible from Q3 / Q4 2016. Latest CII survey has also predicted that most sectors will see firm positive growth by Q4 FY16. But the green sprouts what we saw during last quarter have not shown any improvement. My worry that the firm growth signals may slip even to the next FY. Patience is being tested.

If we analyse the growth figure, we could clearly see the new generation banks have shown credit growth much higher than industry average growth of 10% approx. Most of them have shown retail / consumption loans / vehicle loans as the main growth drivers.

Options were hunted on Corporate front. We are continuing with our existing strategy and expect current year advances' growth to be 12% - 15% as discussed earlier.

On the Asset quality side, we used to have about 1.25% to 1.50% of closing advances slipping into NPA till FY 13. The slippage for FY14 was Rs.456 cr (2.81%) and for FY 2015 it was Rs.425 cr (2.35%). Going forward, the slippage ratio should moderate to 2 - 2.25% for FY 2015-16. The slippage should drop below 2% next year i.e FY 17. As such it looks like 75% of the asset quality problems are over. As we are not part of many consortium advances and with lesser exposure to infrastructure and power, we have few CDR cases and lesser problems as compared to most of our peers. All depends on how quick general economic recovery firms up. This quarter increase in addition was Rs.77 cr but still we are experiencing pressure.

As discussed earlier, more than the addition to NPA, the worrying thing now is, there is a delay in the recovery front as the collection by way of liquidation of collaterals is getting postponed longer than what we had anticipated earlier. We are leaving no stones unturned and something should happen in this FY.

During the quarter we have not restructured any account and we have a total of only 9 accounts under restructured category amounting to Rs.244 cr which constitutes 1.36% of total advances. Also, during the quarter we have not sold any account to ARCs.

All our return and profitability ratios are intact. We have closed the quarter Q1 FY16 with NIM of 3.59%, ROA of 1.57%, ROE of 16.43%, cost to income ratio of 40% and all this ratios are in line with our previous track record. There may be a contraction in NIM in the coming quarters since we enter into decreasing interest rate scenario.

We have shown 20%+ of ROE up to FY 2013 which decreased to 19% for FY 14, 16.9% for FY 15 and 16.43% for Q1 FY16 due to rounds of Capital raisings that happened through Rights Issue and QIP. We expect the ROE will start moving up.

Even though our operating results are encouraging, the business growth and asset quality problems remain a worrying factor for us now. But I have to repeat what I said in the last con call. We are better capitalized now. We have better IT infrastructure, we have better branch network. We have 481 branches as on 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 expect better things to emerge from Q4 FY 2016 or by early FY 17 when we are all expecting the revival of the economy to take place.

The Annual General Meeting will be held on 24.08.2015 at Kumbakonam. In this we are seeking share holders' approval for an enabling resolution to go for QIP up to Rs. 500 cr.

Now Mr. S. Sundar, Advisor will explain numbers. Over to Mr. S. Sundar.

Thank you MD sir. I am Sundar, Advisor.

Good evening every body and thank you for attending the City Union Bank's earnings call of Q1 FY 16.

Let us get into the details of the quarter results:

In a nutshell, the Bank has shown a growth of 14% in Operating profit in Q1 FY 2016 over the corresponding period. In absolute terms the Operating profit increased from Rs. 173 cr to Rs. 197 cr. Similarly the Net Profit for Q1 FY 2016 has enhanced by 12% when compared to Q1 FY 2015. In absolute term the Net Profit for Q1 FY 16 was 112 cr as compared to 99 cr in Q1 FY2015. The Net NPA has marginally increased to 1.32% in Q1 FY2016 from 1.30% in Q4 FY2015 (sequential quarter).

Coming to the Business growth, our Deposits have increased by Rs.2728 cr from Rs.22383 cr to Rs.25111 cr, registering a growth of 12% y-o-y basis.

Similarly, our Advances enlarged by Rs.1748 cr from Rs.16153 cr to Rs.17901 cr translating into a 11% growth.

Thus the total business grew by 12% over the one year period.

CASA has recorded a growth of 17%, in absolute terms by Rs.681 cr from Rs.4059 cr to Rs.4740 cr. The share of CASA in total deposits was 19%, CA portion increased by 17% and SA portion by 16%.

The Cost of Deposits for Q1 FY 16 decreased by 40 bps to 7.85% from 8.25% compared with Q1 FY2015 due to reduction in the interest rate offered on deposits. Cost of Deposits for the whole of FY 2015 was 8.15%.

The yield on advances for Q1 FY 16 stood at 12.95% as compared to 13.18% for FY 2015. We expect the marginal decline in the yield in coming quarters due to decreasing interest rate cycle and stiff competition in the market.

The net interest income for Q1 FY 16 stood at Rs.224 cr as against Rs.187 cr in the corresponding period thereby registering a growth of 20%. The Net Interest Margin for Q1 FY 16 stood at 3.59% when compared to 3.40% in the last quarter Q4 FY 15 and for the whole FY 2015 NIM stood at 3.44%. We are expecting some shrinkage in NIM as we enter decreasing interest rate cycle towards which markets are headed. We have consistently maintained the 8 quarter average NIM around 3.50% for the last 20 quarters while the range is between 3.20% and 3.70%.

The non interest income of the bank in Q1 FY 16 was Rs.105 cr as compared to Rs.111 cr in the corresponding quarter reflecting a decrease of 5%. The decrease is mainly due to reduction in collection from the written off accounts and the same has been off-set from the income received from Income Tax refund to the tune of Rs.11.58 cr and incentive of Rs 4.88 crs received from RBI for installation of recyclers towards our technology initiatives. Further, the treasury profits comprising both domestic and forex segments increased by 40% from Rs.22.33 cr in Q1 FY2015 to Rs.31.20 cr in Q1

FY2016. As the Bank had surplus funds, INR funds were swapped and kept as US Dollar deposits to get a better spread of 0.50% p.a. over other investment avenues.

Other operating expenditure has increased marginally by 5% in Q1 FY 16 to Rs.131 crs in Q1 FY 2016 from Rs.125 cr incurred in the corresponding quarter last year. The staff expenses decreased by 8% as the payment of ex-gratia has been adjusted against the provision made in Q4 FY 2015. All other operating expenses registered an increase of 15% from Rs.72.50 cr to Rs.83.11 cr due to normal increase in expenses like Rent, Electricity, Insurance, Depreciation, and Service tax, etc.

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The operating profit for Q1 FY16 has thus increased by14% from Rs.173 cr to Rs.197 cr.

For Q1 FY 2016, the total provisions made was Rs 86 cr, an increase of 17%compared to Rs.73 cr in the corresponding period last year. The provision for Bad and Doubtful debts increased from Rs.44 cr to Rs.50 cr. Based on the revised RBI guideline - RBI/2015-16/111/DBR. No. BP.BC.27/21.04.048/2015-16 dated 02.07.2015 for NPV calculation on Restructured accounts, we had re-worked and reversed a sum of Rs.12.20 crs from the restructured provision and the same has been utilized to provide for Bad Debts. Provision for tax increased from Rs.30.50 cr in the last year corresponding quarter to Rs.40.50 cr in Q1 FY 16.

PAT for the first quarter thus has increased by 12% from Rs.99 cr to Rs.112 cr.

Return on Assets stood at 1.57% for Q1 FY16 as against 1.58% for the corresponding quarter last year. The Return on equity stood at 16.52% for Q1 FY 2016 against 19.40% for Q1 FY 2015 mainly on account of fresh infusion capital by way of QIP and exercise of stock options.

Cost to income ratio decreased to 39.99% for Q1 FY16 from 41.94% in Q1 FY15. The reduction in the cost to income ratio is mainly attributable to adjustment of ex-gratia payment against the provision of Rs 10 crs made during the last quarter. Further we have not opened any new branches in Q1 FY 2016. As opening of new branches will take place in the later part of the current fiscal, the cost income ratio may tend to increase up to 42% – 45%.

For Q1 FY 2016, the gross additions to NPA is Rs.77.62 cr compared to Rs.108.63 in Q4 FY 15 and Rs.167.50 cr in the corresponding Q1 last year. We have recovered a sum of Rs.28.05 cr in live NPA accounts during the quarter. With this, the Gross NPA for Q1 FY 2015 stood at Rs.359.44 crs equivalent to 2.01% of Gross Advances Vs 1.91% in the corresponding quarter last year Q1 FY 2015. The Net NPA stood at Rs.234.33 crs which is 1.32% of Net Advances Vs 1.28% in the corresponding quarter last year Q1 FY 2015.

We have not sold any assets to ARCs during this quarter. We have not restructured any accounts in the quarter and the outstanding restructured assets to Gross advances stood at 1.36%. We have collected Rs.3 crs towards repayments in the restructured standard accounts during the quarter. During this quarter two borrowal accounts slipped into NPA from restructured standard assets aggregating to Rs.16.35 crs.

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

Thank you all!

Questions & Answers:

The first question is from Mr. Abishek Kothari, Anand Rathi.

Mr. Abishek Kothari, Anand Rathi: Congratulations for the good set of numbers. Could you please say any accounts are in pipe line which may slip into NPA category?

MD – Dr N Kamakodi : In the past we used to have 4% - 5% under the SMA 0,1 & 2 accounts put together. This percentage increased to 13% - 14% in the last 2 years and now it has moderated to 9% - 10%. Our slippages which used to be 1.25% - 1.50% upto FY 2013 increased to 2.8% in FY 2014 but moderated to 2.3% in FY 15. This year we expect it should around 2% - 2.25%. If the economic recovery gets delayed it may worsen the situation. Hence, I don't want to extrapolate the current quarter slippage to next 6 quarters and give a number based on that.

Mr. Abishek Kothari, Anand Rathi: What is amount lying in SMA 2 account?

MD – Dr N Kamakodi : As of now, around 275 cr – 300 crs are under SMA 2. This is the amount lying under problematic accounts only and if you add all other accounts for the same borrower it may go up to 700 crs. This figures has been reported to RBI for the March quarter 2015.

Mr. Abishek Kothari, Anand Rathi: What is the Tier I CRAR?

MD – Dr N Kamakodi : Virtually our entire CRAR is from Tier I only. It is 15.30% of Tier I and 0.42% of Tier II. The total CRAR under Basel III was 15.72%.

Mr. Abishek Kothari, Anand Rathi: Going forward, did you expect any pressure on ROA?

MD – Dr N Kamakodi : The ROA for the current quarter was 1.57% and the last 8 quarter average ROA is anywhere between 1.4% - 1.5%. But these are all mainly dependant on the business growth and if the growth accelerates to 15%+, we don't anticipate any pressure on that.

The next question is from the line of Mr. Amit, Religare.

Mr. Amit, Religare: Just it's a followup on the previous question that the amount what you have mentioned to the tune of Rs.300 – Rs.400 cr in SMA 2 accounts is the total?

MD – Dr N Kamakodi : This will be the account specific balance. If you add up all other accounts of the same borrowers it will be around 4 – 5%. If you add up all the SMA 0,1 & 2 accounts the total exposure to the group accounts will be anywhere between 9% - 10%. This does not mean that the slippages which used to be 1.5% earlier will also increase proportionately as we have been continuously following up the stressed accounts and the slippages shall be around 2% – 2.25% only.

The next question is from the line of Mr. Abishek Kothari, Anand Rathi.

Mr. Abishek Kothari, Anand Rathi: Sir, what is the slippage from the SMA accounts?

MD – Dr N Kamakodi : Even when the total SMA accounts went up to 14% - 15% earlier, the total slippages was around 2.8% in FY 13 and 2.3% in FY 14. We may expect the present slippages to be between 2% - 2.25% only for the current year.

The next question is from Mr. Alok Shah, Centrum Broking:

Mr. Alok Shah, Centrum Broking: Congratulations for the good results. Your cost of deposits has come down 40 bps to 7.85% from 8.25% in corresponding last quarter. How much you have reduced the rate of deposits during the last quarter?

MD – Dr N Kamakodi : We have reduced 75 bps in rate of interest in the last 6 months. The rate was reduced from 9.25% to 8.50% now.

Mr. Alok Shah, Centrum Broking: Out of Rs.77 cr of slippages, already two accounts to the tune of Rs.16 crs added from restructured accounts. Is there any other chunky account in that addition?

MD – Dr N Kamakodi : Yes apart from that 16 crs no major chunky addition to the slippages in Q1. Remaining all are less than in 5 – 6 cr accounts only.

Mr. Alok Shah, Centrum Broking: Is there any more problem in the iron & steel accounts?

MD – Dr N Kamakodi : Almost all of the big problematic accounts in the iron & steel sector either slipped into NPA or restructured category. Now, only one account to the tune of Rs.60 crs is in the restructured category and apart from this we don't expect any more account from iron & steel sector.

Next question is from the line of Mr. Deepak Agarwal, Axis Capital:

Mr. Deepak Agarwal : Sir, can you help me with the total amount of restructured accounts in iron & steel sector?

MD – Dr N Kamakodi : There is only one account in the restructured category to the tune of Rs.64 crs as informed earlier. All other iron & steel industry accounts are either classified as NPA or performing. We have 200 crs of accounts in SR books from iron & steel sector.

Mr. Deepak Agawal : Is the textile sector performing well?

MD – Dr N Kamakodi : As of now there is no problem in the textile accounts and they are performing well.

The next question is from Mr. Asish Sharma, Enam Asset Management.

Mr. Asish Sharma : Is there any problem in the recovery of SME accounts given the sluggishness in the real estate business and my next question is on the capital raising plan to the tune of Rs.500 crs?

MD – Dr N Kamakodi : There is normal problems in the management, cash flow, etc. of the SME accounts while going for recovery of bad SME loans the realization of collaterals is getting delayed due to various legal issues, documentation problems, etc. I don't deny that there is no realization issues. The sluggishness in liquidation of real estates hamper speedy recovery and we have to compromise 10% - 15% on the outstanding collaterals at the time of recovery. With regards to capital raising, it is only an enabling resolution to raise capital through QIP only when there is a requirement. If you go through our earlier 6 year annual report, we were always having an enabling resolution to raise capital which we utilized only once last year. At present we have adequately capitalized and we don't have any urgency to raise the same. However, we want to have this agenda in every Annual General Meeting.

The next question is from the line of Mr.Krishnan Jay, TVS Capital Fianance:

Mr. Krishnan Jay: The Provision coverage ratio is increased to 61% from 58% in the last quarter and going forward what is the target on that?

MD – Dr N Kamakodi: I don't set any target for PCR. It is derived figure based on the provisions made as per RBI requirement and Net NPA figure.

Mr. Krishnan Jay : Why CD ratio has declined to 71% from 75% in the last year?

MD – DR N Kamakodi : The main reason for decrease in the CD ratio was due to higher accretion in deposits than the credit growth. The average CD ratio was 73% in Q1 and the terminal figure was 71%. We want to achieve a 75% ratio as our target. Though credit growth was slow in Q1 we anticipate it will pick up in Q2 to reach the target.

The next question is from the line of Mr. Alok Shah, Centrum Broking:

Mr. Alok Shah : Please provide us the breakup of provisions for this quarter.

MD – Dr N Kamakodi – The tax provision increased from Rs.30.50 cr in the corresponding quarter last year to Rs.40.50 cr in Q1. The provision for bad debts was Rs.50 crs and the provision towards depreciation on investments was Rs.3.00 crs. Based on the recent circular from DBOD, RBI – No.BP.BC.27/21.04.048/20015-16 dated 02.07.2015 for NPV calculation wrt reduction in discount rate, we have re-worked and reversed a sum of Rs.12.20 crs from provision on Restructured accounts.

The next question is from Mr. Rajeev from GC Investments:

Mr. Rajeev : What is growth you are expecting from SME / Trade sector and in the retail loan portfolio which sector is encouraging?

MD – Dr N Kamakodi : Our SME / TRADE / Agri loans constitutes about 65% to our entire loan book. We expect a loan growth of 12% - 15% for the current year and 15 – 18% in FY 17 and 20%+ from FY 18 provided economy starts picking up after 2 – 3 quarters. Our loan mix will continue to be the same.

Mr. Rajeev : Out of the total outstanding of Rs.373 cr of SR, is there any MTM hit for the bank?

MD – Dr N Kamakodi : All the loans sold to ARCs are covered by good collaterals. However, we have provided Rs.2.00 crs towards MTM loss.