CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM
CONCALL TRANSCRIPT OF OUR EARNINGS CALL – DECEMBER 2019

Good afternoon to all, Dr. Kamakodi here.

Hearty welcome to all of you for this conference call to discuss Q3 and Nine months period ended December 2019 financial results of City Union Bank. The Board of Directors adopted the unaudited results today at Chennai.

As you may know, we had our 116th Foundation day celebration on 23.11.2019 at Chennai in which Hon'ble Finance Minister participated. The function went off well.

In that function, we released our new App "CUB - all in one" which has voice interaction features in four languages for the first time in the industry. You can download from Google play store and try even if you do not have account now. Apple version is getting ready.

The highlights of performance for Q3 FY 20 / Nine months FY 20 is as given below:

- ✓ We have recorded a growth of 12% in Deposits.
- ✓ Advances grew by 10%, below our expectation of growing between 15-18% shared during beginning of the year.
- ✓ Thus, Business grew by 11% and presently stands at Rs. 73640 cr.
- ✓ Growth in Operating Profit for 9 months period was 12% and for Q3 FY 20 it was marginally higher by 1%
- ✓ PAT recorded a growth of 13% for 9 months period and 8% for Q3 FY 20.

When we started the current financial year we shared our expectations for FY 19-20 as follows;

- ✓ We expected credit growth to be between 18-20% for whole year
- ✓ Slippage ratio to closing advances to be between 1.75% - 2% for the whole year
- ✓ ROA will be at 1.50% – 1.60% level
- ✓ NIM should come down
- ✓ Cost-to-income ratio would be in the range 42% to 44%

- ✓ There would be quarterly aberrations but overall annual figures we expected to be on this line.

When we shared that expectation, it was based on last year growth of 17% and expectation on current year credit growth of banking system at 13% - 15%.

The banking sector growth rate which was at 13% during March 19, came down to 12%, 9% and 7% for Q1, Q2 & Q3 respectively. Banking sector growth rate currently stands at 7% when our credit growth rate is 10%. We normally record 3-5% credit growth over & above the industry.

About 3 to 4 banks have shown growth rate in the range of 13% to 20% where growth mainly comes from retail consumption and a couple of them have shown in corporate growth. We are not in those segments. We don't want to push growth in SME now. When the trade off is between credit growth and future asset quality, our vote is for quality.

This reduction in growth rate has given us a lot of headwinds to fight against.

We are endlessly waiting for better general economic environment like you all expecting better growth and lowering NPA. The downward pressure is not showing any relief. In fact, it is getting tougher compared to situation in the previous quarter.

We expected to close the year FY 2020 with about Rs.40,000 cr advances and budgeted about Rs. 800+ slippage working out to 2% slippage ratio to closing advances. Though there is not much variation to quantum, lower closing advances will push both slippage ratio and net NPA higher mathematically.

The asset quality by and large is on the expected lines. The slippage ratio to closing advances for nine months FY20 is 2.48% and for Q3FY20 is 2.72%. The spike in slippage ratio mainly due to sluggish advances growth as we discussed above. During Q3, one bulky account which we have discussed in our earlier concall from Paper mill classified is as NPA. The exposure to this paper account was Rs.71 cr. It is natural that if the general economic performance is not good, even good customers start facing trouble over a period of time.

The recovery during Q3 FY 20 was Rs. 150 cr (live recovery Rs. 128 cr & TW recovery Rs. 22 cr) and for 9 month period it was Rs. 342 cr (Live recovery Rs. 254 cr & TW recovery Rs. 87 cr). We are putting a lot of effort on NPA recovery. It is not happening at the pace we would like to have it. Fortunately, we had an upgradation of an Educational institution NPA from the advance money they got for a sale deal. If the advance amount had not come, NPA recovery would not have been so much. These educational institutions have a lot of delayed receivables from the Govt. When delay happens from Govt. what we can do?.

But, we are not giving up. The pressure is not showing any relief. NPA recovery is going to be a major lever determining how we are going to maintain our profitability efficiency ratios like RoA, RoE, Cost to Income and Net NPA ratios in the absence of growth and favorable economic condition.

Gross & Net NPA stands at 3.50% & 1.95% respectively as against 3.41% and 1.90% last quarter.

NII for 9 M period has improved to Rs.1256 cr as against Rs.1191 cr in 9m FY 19 recording a growth of 5%, mainly achieved by improving CD ratio.

The Operating Profit for nine months in the current year is Rs.1006 cr as compared to Rs.902 cr last year for the corresponding period mainly on account of improvement in other income especially treasury trading by taking advantage of favorable yield movements. For 9M FY 20 the domestic treasury income was Rs.109 cr as against Rs.21 cr during corresponding period.

The yield moving up is reducing the chances of profit booking through Treasury. Expenses cannot be reduced beyond a limit. Reduction in tax rate is the only good news in the current time.

Operating expenses increases as usual and hence cost to income ratio shows upside when compared to Q2 FY 20. Cost to income ratio stands at 45.85% for Q3 and 42.70% for 9m FY 20. We had about 45%+ cost to income ratio for two quarters during FY 2013-14 but it subsided subsequently. During the current quarter we had Rs.21.63 Cr of profit from treasury. Write off recovery also plays a major role in determining cost to income ratio. We are working hard to maintain the Cost income ratio as per our trajectory levels.

Net profit for nine months stands at Rs. 572 cr as compared to Rs. 508 cr for corresponding period last year showing 13% growth. It is achieved mainly due to reduction in tax provision on account of reduction in tax slab which stands reduced to Rs.130 cr for 9M FY 20 as against Rs. 170 cr for 9M FY 19. We expect total benefit of Rs. 63 Cr in tax expenses for the current year due to reduction of tax rate.

ROA for nine months stands at 1.61%, NIM at 3.99% and Cost to income ratio at 42.70%. The NIM is stabilizing on account of increasing CD ratio. We still have a small head room there. We are giving our efforts to maintain the track record whatever we have built over a period of time.

As we have been discussing in our concalls, top 4 accounts take care of around 90% of our total Security Receipts(SRs). We have received a sum of Rs.11.62 Cr during Q1 FY 20 and Rs.10.53 cr in Q2 FY 20. During Q3 FY 20 we have received Rs. 17.93 cr. We have also received around Rs.26.78 cr in Q4 till date. Since the repayment terms goes up to 2022, we expect there will be cash flows continuously. The outstanding SR as at 31.12.2019 stands at Rs. 285 cr as compared to Rs. 325 cr at the end of March 2019, highest SR balance being Rs. 375 cr during FY 2015.

As told in the earlier quarters, we are recommending to our SME customers to use the RBI dispensation. During Q3 fY 20, 16 standard a/c were restructured to the tune of 87 cr. As of 31.12.2019 total outstanding restructured account was 133 in numbers amounting to 200 cr. RBI has also extended the deadline to December 2020 based on the Government request. We have not sold any assets to ARC during the quarter.

To sum up,

We are working hard to maintain our ROA and ROE in the current band even if the growth rate is muted and in NPA also by God's grace should be at the current level.

Despite headwinds from various factors, we are giving our best efforts to maintain efficiency & profitability ratios. Leaving rest to Almighty.

कर्मण्येवाधिकारस्ते मा फलेषु कदाचन।
मा कर्मफलहेतुर्भूर्मा ते सङ्गोऽस्त्वकर्मणि॥ २-४७

"Karmanye vadhikaraste Ma Phaleshu Kadachana, Ma Karmaphalahetur bhurma Te Sangostva karmani".

With this I conclude and over to CFO Mr. Ramesh to run through the numbers.

Thank you MD sir. I am Ramesh, CFO.

Good evening everybody and thank you for attending the City Union Bank's earnings call of Q3 FY20 / 9M FY20.

Let us get into the details of the third quarter & nine months period ended results :

During the period, our Deposits has increased by Rs. 4,308 cr from Rs. 35,504 cr to Rs.39,812 cr, registering a growth of 12% on y-o-y basis. Similarly, Advances improved by Rs. 3,191 cr from Rs.30,637 cr to Rs.33,828 cr translating into a 10% growth. Thus, the total business grew by 11% on y-o-y basis and stands at Rs. 73640 crs.

CASA has recorded a growth of 10%, in absolute terms by Rs. 825 cr from Rs. 8,470 cr to Rs. 9,294 cr. The share of CASA to total deposits remains at 23% for Q3 FY20. CA & SA portion both increased by 10% on y-o-y basis.

The Cost of Deposits remained at 6.17% for both Q3 FY 20 & Q3 FY19. Cost of Deposits for 9M FY20 was at 6.22% vs 6.13% in 9M FY19.

The yield on advances for Q3 FY 20 stands reduced to 10.73% as compared to 10.96% for Q3 FY19. The yield on advances was at 10.82% for 9M FY 20 vs 10.89% during corresponding period last year.

The Net Interest Income for Q3 FY20 has improved marginally from Rs. 418 cr in Q3 FY19 to Rs. 427 cr in Q3 FY20. NII for 9M FY20 improved by Rs. 65 cr from Rs. 1,191 cr in 9M FY19 to Rs. 1,256 cr in 9M FY20.

The Net Interest Margin for Q3 FY 20 has declined to 3.96% from 4.41% in Q3 FY19 which is in line with our expectation of contraction in our concalls and also due to reduction in CD ratio from 86% to 82%. NIM for 9m FY20 was at 3.99% as against 4.32% for 9m FY 19.

The non interest income of the bank in Q3 FY20 has increased to Rs. 142 cr as compared to Rs. 120 cr in the corresponding quarter mainly on account of increase in profit on trading of securities. The non interest income for the nine months period ended has improved by 36% from Rs.368 cr in 9M FY19 to Rs. 501 cr in 9M FY20.

The treasury profits comprising both domestic and forex segments increased by 100% from Rs. 21 cr in Q3 FY19 to Rs. 42 cr during Q3 FY 20. For 9m FY 20, income from domestic and forex treasury improved from Rs. 61 cr in 9M FY 19 to Rs. 165 crs in 9M FY20. Suit recoveries for 9m FY 20 has improved to Rs. 87 crs from Rs. 52 crs in 9m FY19 registering a growth of 67%.

Operating expenditure has increased by 13% in Q3 FY20 to Rs. 261 cr from Rs. 231 cr incurred in the corresponding quarter last year. For 9M FY20, the operating Expenses increased to Rs. 750 cr from Rs. 656 cr in 9M FY19. The employee cost increased from Rs. 93 cr to Rs. 113 cr on Q3 to Q3 basis and it increased from Rs. 273 cr in 9M FY 19 to Rs. 327 cr in 9M FY20. The other operating expenses increased from Rs. 138 cr in Q3 FY19 to Rs. 148 cr in Q3 FY20. For 9M FY20 it was Rs. 423 crs vs 383 cr in 9M FY19. The increase was on account of general increase in Rent, advertisement, Telephones etc.

Thus, Cost to income ratio increased to 45.85% for Q3 FY20 from 42.96% in Q3 FY19. For the 9M period ended FY20 the ratio was 42.70% as against 42.11% for 9M FY19.

The operating profit for Q3 FY 20 increased marginally to Rs. 308 cr from Rs. 307 cr in Q3 FY19. For 9M FY20 the same has improved by 12% to Rs. 1006 crs from Rs. 902 cr in the corresponding period last year.

For Q3 FY 20, the total provisions made was Rs.116 cr a decrease of 10% compared to Rs. 129 cr in Q3 FY19 on account of reduction in IT provision. The details of provision made during the quarter Q3 FY 20 is as follows;

Rs. In Cr

Provision for NPA	78.50
Provision for Income Tax	35.00
Provision for Std Assets	6.00
Provision write back – invt deprn	(8.00)
Provision towards Others-restructure /	4.50
Total	**116.00**

For 9 m FY 20, the same has increased to Rs. 435 crs from Rs. 394 crs in 9m FY 19 on account of increase in slippages as also movement among the NPA assets.

The details of provision made for the nine months period ended is as follows;

Rs. In Cr

Provision for NPA	320.50
Provision for Income Tax	130.00
Provision towards depreciation in Investments	(32.00)
Provision for std assets	11.25
Provision for restru	4.40
Provision - Others	0.55
Total	**434.70**

Thus, PAT for the third quarter thus increased by 8% from Rs. 178 cr in Q3 FY19 to Rs. 192 cr in Q3 FY20. For 9M FY20, PAT registered a growth of 13% to Rs. 572 crs from Rs. 508 cr in 9m FY 19.

Return on Assets stands at 1.57% for Q3 FY20 as against 1.68% for the corresponding quarter last year while the ROA for 9M FY20 stood at 1.61% vs 1.65% for the corresponding period last year. The Return on Equity stood at 14.58% for Q3 FY20 against 15.61% for Q3 FY19. Similarly for 9M FY20, ROE stands at 14.96% vs 15.35% in last year corresponding period.

The Capital Adequacy Ratio (as per Basel III) stands at 15.41% of which core CRAR at 14.86% for 9M FY20.

For Q3 FY20, the gross additions to NPA was Rs. 229 cr compared to Rs. 166 cr in Q3 FY19 and Rs. 200 cr in Q2 FY20. For 9M FY20, the total slippages stands at Rs. 630 cr as against Rs. 428 cr in corresponding period 9M FY19. We have recovered a sum of Rs. 150 cr in NPA accounts during the third quarter and for 9m FY 20 we have recovered Rs. 342 crs consisting of Rs. 254 crs in live accounts & Rs. 87 crs in TW accounts.

Accordingly, the Gross NPA for Q3 FY 20 stood at Rs. 1185 cr vs Rs. 892 cr Q3 FY19 and Gross NPA ratio stands slightly increased to 3.50% from 2.91% last year. The Net NPA stood at Rs. 649 cr which is 1.95% of Net Advances as against 1.74% for 9 m FY 19. We have not sold any assets to ARCs during this quarter.

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

Thank you all! Over to questions:

Q & A – 3QFY20

Darpin Shah (HDFC securities)

Q- How the SMA1 and SMA2 have moved over the last Quarter and do you see any stress similar to this quarter which we have seen from last account which was slipped, so any other account which we see under stress?

A- We had disclosed SMA-2 numbers in the September call last quarter. Currently, the SMA-2 numbers are almost around 6% and staying at particular level for quite some time. Earlier a couple of years back it even went to level of 12% and they are stabilizing at ~6%. As we use to say in past don't look too much into those splitting and all. We will give you finally what is going to happen. Basically there is no incremental alarming level of increase in the SMA2 numbers at this point of time. During the beginning of the year our expectations were things will be stabilizing at second, third and the fourth quarter and numbers will be much better and all. Unfortunately, we are not seeing things improving as you move forward. We are not in position to assure you that things will improve and all. Overall, slippage numbers will be at the same level.

PrasabZaveri (Emkay Investments)

Q- Employee strength over last about 4 quarters have gone up roughly from 5400 to 5800 employees, but our quarterly employee cost have gone up from ~90 crores to ~115 crores. It seems average cost per employee is significant high double digit increase. Is there any provision is this 113 crores or the general salary has increased?

A- It has some incremental provision for the leave encashment and other things related to actuarial valuation. Since in the earlier year Q4, you have some amount of softening at the yearend calculation. Incremental provision for future benefits as asked by actuaries.

Q- There is 57% increase in retail gold loan. We can't see similar type of growth in agriculture gold loan despite there has been significant increase in gold price and the monsoon is also been good?

A- The one major item which was affecting us adversely was the interest on Subvention given by the PSB for Gold Loan. People had multiple gold loans from multiple banks getting the benefits. When that benefits stopped, we had started campaigning on gold loan in rural and semi urban areas in late October and early November, which gave as Rs.200 crs of incremental gold loan.

Most things came in nonagricultural gold loan also. You can give gold loan on self-declaration basis upto Rs1 lac. When the requirement crosses Rs1 lac and upwards, you require documents and all to be classify as agriculture to happen. And as per regulations when gold loan is given as agriculture, the end use has also to be properly monitored.

Q- Housing loan included in CRE. CRE is growing at 61% while Retail home growing at only 11%. Heard conference call of one housing company focused in Tamil Nadu and they say the real estate market in Tamil Nadu is sort of very weak for almost 2 years?

A- We had discuss about this in one of the earlier concall that the major contribution of the discrepancy is from reclassification of Business loans which were given as other secured overdrafts on the property. They are actually business loans. For ease of doing activity, we have given them as secured overdraft which have been reclassified as Commercial real estate which we discussed in earlier concalls. Housing market in Tamilnadu same as what it was 3-6 months back.

Bunty Chawla (IDBI Capital)

Q- NIM pressure as highlighted in opening remarks but NIMs have improved QoQ? What is the impact of CRR on our books in next 6 months?

A- Improvement in NIMs to greater extent is because of improvement in the CD ratio. Minor headroom available on the CD ratio on the positive side. On the negative side, as everyone is seating on surplus liquidity the Yield pressure is here for at least some more time. So you won't see same NIMs as earlier. We are trying our best and making our own efforts.
On CRR–It is on Incremental MSME lending which you are going to make and available for next 5 years.

For us the incremental lending was Rs.100 crs and we can able to get Rs.4Cr of benefit in maintenance of CRR.

Renish (ICICI Securities)

Q- Breakup of Recovery? Is it driven by any particular account?

A- Rs 50-60 crs came from recovery of educational institution NPA account. We are trying our best. Legal System isn't supporting. There are gaps at multiple places which are beyond capacity to handle

Q- How Deposit rate cut we have taken?

A- 50-60 bps cuts that has happen. We can give 3000-3500crs loans without increasing deposits even by 1 rupee. Keeping that figure in mind looking at growth and all we are playing all levers to get profits out of it.

Bhavesh Shah (BNK Securities)

Q-There Educational account which was upgrade, apart from that recovery is not that much this quarter? Any Ballpark run rate in mind?

A- Expectation of every CEO will be recovery equivalent to your slippages if not more. We have stock of NPA and technical written off accounts. We are making best efforts from all directions through negotiations, SARFASI, etc. Some of the approval to come from district collector. It is not happening as fast as we want to happen. Not fully in our hand to get conversion.

Q- External benchmarking was extended to Medium enterprises as well? Roughly what portion of our book would be eligible to shift to extended benchmarking and how much impact it would have on NIM?

A- Approx ~25-30 % have eligibility. It will happen only when they come for renewal or when they ask to change to external benchmark immediately. It will put pressure on yield during decreasing interest rate cycle.

Q- We haven't reduced our MCLR much given reduction in repo rate? Any views on that?

A- Basically Demand and supply is on which we are trying to work out.

SaiKiran (Haitong Securities)

Q-Challenging Environment. Would you like to explain whether it is geography specific, industry specific?

A- You will have headwinds from different directions at any time and you will have alternate headwinds and tailwinds which you manage to move forward. At this point of time, fortunately the geography of Tamil Nadu much better compare to other geographies in the country. Thats why we are able to hold on to greater extend. When you see growth of industry coming down to 7% from 13% it is telling something which is not in the healthy interest of the overall industry. Tailwinds tax rate reduction, headroom available in CD ratio and NPA recovery are there to manage the headwinds.

Gaurav Jani (Centrum)

Q- Any specific sector showing stress? When do you see recoveries? CASA has dropped?

A- Iron and steel is going through very tough phase. Automobile, folding and molding industry are also going through some stress. So, it is not related to one particular sector and uniform across sectors. Those businessmen having strong balance sheet are playing it well while ones having thin margin or high leverage are finding it difficult.

MB Mahesh (Kotak Securities)

Q- Tax rate benefits- how much are you getting and from where? What should be stabilized rate going forward?

A- Multiple sections are there like rural advances for which there are certain benefits. Current benefit is Rs.60 Crs in FY20 YTD. The tax rate should stabilize at 18% going forward.