



“City Union Bank Limited
3QFY24/25 Earnings Conference Call”

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MODERATOR: MS. MARGARET – AMBIT CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to the City Union Bank Limited 3QFY24/25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Margaret from Ambit Capital. Thank you, and over to you, ma'am.

Margaret: Good evening, and on behalf of Ambit Capital, I thank the management of City Union Bank Limited for the opportunity to host your 3QFY25 earnings call. We have the following members of management with us today, Mr. R. Vijay Anandh, Executive Director; and Mr. J. Sadagopan, Chief Financial Officer.

I will now hand over the call to the management, Mr. Vijay Anandh, Executive Director, to walk us through the quarter. Thank you all, and over to you, sir.

R. Vijay Anandh: Good evening, everyone. Warm welcome to all of you for joining this con call to discuss the unaudited financial results of City Union Bank for the 3QFY25. I thank my MD and CEO for giving the opportunity to get this 3Q call. I have been joined by my CFO, Mr. Sadagopan in this call.

The Board approved the results today, and I hope you have all received the copies of results in the presentation. At the beginning of the year, we shared our expectations for the current financial year '25 as follows: With all the new digital initiatives supported by strengthened top and senior level management, we express confidence to restore the credit growth on par with industry levels and go beyond.

On asset quality front, the trend of reduced slippages, coupled with improved recovery, would continue for financial year 2025. We would reach between 1% to 1.25% net NPA for the financial year 2025 and would explore the possibility of improving the coverage ratio. It will also help us to maintain the PAT growth.

Our RoA is back to our long-term average of 1.5%, and it will continue. For the current quarter Q3, we are almost on track on our expectations, which we shared with you all earlier. We had registered 14.6% advanced growth in Q3 FY '25 year-on-year. And our gross advances has increased to INR50,409 crores from INR44,017 crores in Q3 FY '24.

As you are aware, we closed December '22 with 12% credit growth, but growth decelerated in the calendar year 2023, and we almost closed December 2023 with 0% growth, in fact, 2% growth year-on-year. Our growth restarted in Jan '24 and reached double-digit growth for June 2024. In the last quarter, we had registered 12% credit growth in Q1. We achieved 10% credit growth. And for the current quarter, we have achieved around 15%. Thereby we had made a continuous double-digit growth for all the 3 quarters in the current financial year.

As stated in our earlier calls, our improved efficiency level, aided by the digital lending process is helping us in a better way to achieve our consistent credit growth. During last 1 year, out of the total credit growth of INR6,392 crores, 62% of the business came from core advances while rest is from gold loans. Once the retail vertical and other avenues of advances start supporting us further in terms of our credit growth, we hope the trend will continue, and it will also show the current growth level impact of plus or minus 2% going forward.

Our deposits have increased 11% and stood at INR58,271 crores for Q3 '25 as compared to INR52,726 crores for Q3 '24. The CASA has increased by 5% year-on-year from INR15,359 crores to INR16,132 crores. So for the concentration in the calendar year 2024 was to get the credit growth on track, which has happened now. Parallely the efforts are on to take care of the deposit growth to support the required credit growth.

Cost of deposits stood at 5.88% for Q3 '25 versus 5.67% in Q3 FY '24. And for 9 months period, the same was 5.78% when compared to 5.51% last year. Now the asset quality. On asset quality front, as we have stated earlier, the trend of recoveries continues to be more than slippages and this trend is continuing.

For Q3 FY '25, the total slippages stood at INR201 crores, while the total recovery is close to INR249 crores, consisting of INR203 from live NPA and INR46 crores came from technically written off accounts resulting in negative slippages.

As a result, our Gross NPA percentage had sequentially decreased from 4.47% in Q3 FY 24, 3.99% in Q4 FY 24, 3.88% in Q1 FY 25, 3.54% in Q2 FY 25 and now further reduced to 3.36% in the current quarter. Similarly, our net NPA number had reduced to Rs.702 Cr and net NPA percentage to 1.42% in Q3 FY 25 which was 1.62% in Q2 FY 25 and 2.19% in Q3 FY 24 last year.

Overall, SMA to total advance stands at 1.91% in the current quarter, which reduced from 2.03% in the last quarter of Q2 FY '25. It appears that our strategy of not getting into unsecured retail is helping us in a big way to have a better asset quality, both in slippages as well as on SMA 2 numbers. Even though the PCR with T/W has hovering over and above 70% for the last few quarters, our PCR without technical write-off now is 59% when compared to 55% in last quarter of Q2 FY '25, and it was 51% in the last financial year, Q3.

So this means technically we have moved from 51% in the last year to 59% in Q3 of this year. PCR with technical write-off stood at 77%, which has improved from 71% last year. So with technical write-off, we have moved from 71% to 77% and without technical write-off, we have moved from 51% to 59%.

Our interest income had grown by 12% in Q3 '25 and increased to INR1,479 crores from INR1,326 crores in Q3 '24. Our yield on advances stood at 9.81% for Q3 FY '25 as against 9.62% for the same period last year. Our NIM for Q3 FY '25 stood at 3.58% as compared to 3.50% in Q3 FY '24. NIM for 9 months financial year '25 is at 3.59% compared to 3.63% in the corresponding last year.

As discussed in earlier calls, the margin should be 3.60% with plus or minus 10 basis points. We hope to maintain the same trend, as you might have seen in the last 50 to 60 quarters, 90% of the time, the net interest margin has always been in the range of 3.4% to 3.7%.

In the last financial year, that is FY '23/'24, we had lower operating profit due to lower business growth, and we have maintained our PAT with the help of improved recovery and reduced slippages. For the current quarter, our operating profit has grown by 20% and stood at INR436 crores compared to INR364 crores in the corresponding period last year.

We have achieved a PAT growth of 13%, and our PAT stood at INR286 crores for Q3 FY '25, as against INR253 crores in Q3 FY '24. The PAT for 9 months FY '25 is at INR876 crores, registering a growth of 10% as against the same period last year.

Our cost-to-income ratio for Q3 FY '25 is almost flat at 46.58% compared to 47.06% in Q2 FY '25 and 48.64% in Q3 FY '24. As said in earlier calls, the cost-to-income ratio will be in the range of 48% to 50% for FY '24/'25, and we hope it will start going down once the retail business start delivering results.

Our ROA for Q3 FY '25 is at 1.57% compared to 1.49% in the corresponding last year. We are back on track with respect to ROA over 1.5% in the past few quarters and aligned with the desired level. ROE too has marginally improved from 12.57% in Q3 FY '24 to 12.64% in Q3 FY '25.

As you are aware, we have a small portfolio of credit cards for our existing to bank customers. We found certain gaps in product offerings, and we have tried to align the same. As a result, we have tied up with Chennai Super Kings, CSK, for co-branded credit cards. In addition, we are in advanced discussions with another franchisee.

I'm sure with the proposed offerings, we will make us a preferred card partner mainly for our existing customers. We propose to focus credit cards, mainly for our existing customers. Recently, our bank had won seven awards in the recently concluded Annual Technology Conference and Citations 2024 held at Mumbai on 24th January 2025.

CUB has got awards in all the current categories from IBA for the second year in a row. The IBA awards are aimed at rewarding best technology providers to the banking industry, encouraging competition in the banking industry to demonstrate the state-of-art innovative products, sense of purpose are bringing huge value addition in best practices for serving clientele.

Our bank was the winner in best digital sales, payments and engagement, best IT risk management, best fintech and digital payment index adoptions and best financial inclusion. We are the runners up in the Best AI & ML Adoption while we got a special award under the category, Best Technology Talent & Organization and Best Technology Bank.

To sum up, we have crossed the industry level credit growth, which was eluding us for the last couple of years, we expect that to stabilize and move forward. Operating profit has also started

showing growth in tune with the business growth. Now we could see consistency across all parameters, such as credit growth, net interest income, operating profit, PAT, NPA levels and cost to income.

The current level of credit growth was achieved from existing MSME core business and JL, coupled with digital lending process and we hope it will improve once the avenues of retail start delivering results. Again, our strategy of not getting into unsecured retail has definitely helped us to maintain the asset quality and we hope to maintain the same for future.

Now our concentration will remain more focused on deposit front, which should support the credit growth going forward. Thanks a lot. And any questions, we are happy to take.

Moderator: The first question comes from Shweta Upadhyay from Asit C Mehta.

Shweta Upadhyay: Yes. Just one question on this new tie-up that you have done with this CSK. With this tie-up, is the bank now will be focusing more on the unsecured portion because the unsecured portion of our portfolio being quite less, like around 1% or 2%. So, with this tie-up, are we starting to focus more on the unsecured portion. And if yes, then up until what portion are you expecting to increase this unsecured portfolio out of the total loan book?

R. Vijay Anandh: Good evening. As I have mentioned in the commentary, we have existing customers who are using other bank credit cards. They are our core customers for the bank. We form certain product features, which are not available, which made them to use other bank cards. We just want to fix the gap, number one.

Number two, as I mentioned earlier, we are going to focus this card only for our existing customers. This means we will be around 90-odd percent for our existing customer base and maximum, we will be around 10% for our new-to-bank customers. We don't have any plans of getting into unsecured retail, personal loans or anything as of now. And this card is mainly for our existing-to-bank customers.

Shweta Upadhyay: Okay. And sir, just one more question. Are we on track on the branch expansion that the bank has guided earlier?

R. Vijay Anandh: Yes, we are on track. And more or less, we should complete the financial year with whatever we have estimated. We would be around 850 to 875 branches, as estimated at the beginning of the year by March 31st.

Shweta Upadhyay: And will the branch expansion be happening in Tamil Nadu and Southern region? Or are we expanding the bank in other regions as well?

R. Vijay Anandh: We are majorly focusing on North and West as well. It depends on the market what we are opening based on the data, what we'll see. Wherever there is a good opportunity for us in MSME business, we are focusing on North and west as well, it's not only in Tamil Nadu.

Moderator: The next question comes from Vatsal Parag Shah from Knightstone Capital.

- Vatsal Shah:** So in retail, what are the products which we are looking to enter in and grow ourselves within?
- R. Vijay Anandh:** So as mentioned before, we are looking at only secure products in retail. We are getting into loan against property, home loans -- affordable home loans and micro loan.
- Vatsal Shah:** Okay. And we had also mentioned that for the Northern part, we are going to appoint DSAs. So have we appointed them? And if yes, then how has been their response?
- R. Vijay Anandh:** The test launch has already happened. And the human capital is already deployed in North and West. We could see some results in the pilot launch in Q3. I think we have started pretty decently with our expectations. So DSA appointment is a continuous process, which we are doing it, and we have already appointed the DSAs.
- Vatsal Shah:** Got it. And on the restructuring portfolio, so you had said that you are going to take additional provision call after you will complete 2 years. So I guess 2 years have been completed. So have you taken any decision on that?
- R. Vijay Anandh:** Actually, it is working on the other side. There will be a release of provision once the repayment continuously happening on those accounts and we keep the provision requirements based on the outstanding restructured balance of each and every quarter. So, there is no additional requirement of provision as pointed out by you.
- Vatsal Shah:** So you are not going to take any additional provision, is it?
- R. Vijay Anandh:** No.
- Vatsal Shah:** Okay. Got it. And more or less, could you give any number to what growth are we looking at over the next 2, 3 years? Just a range.
- R. Vijay Anandh:** 2, 3 years is quite long, but still we would be around 12% to 14% growth.
- Vatsal Shah:** 12% to 14%. Okay, got it. And much of it will come through retail, right?
- R. Vijay Anandh:** No, no, MSME.
- Vatsal Shah:** No, no. The larger part of the growth. So far we will go faster in retail, right, so...
- R. Vijay Anandh:** We will do retail, but our focus on MSME continues. As we mentioned earlier, 2% to 2.5% would be the retail contribution in the overall for the year. So our focus on MSME continues. We don't have any change in our portfolio composition.
- Moderator:** The next question comes from Siddharth Rajpurohit from YES Securities.
- Siddharth Rajpurohit:** So 2% to 2.5% retail contribution is what -- is the absolute level contribution that will happen in this year?
- R. Vijay Anandh:** On the total business?

- Siddharth Rajpurohit:** Yes, the total advances of -- total advances 2% to 2.5% contribution...
- R. Vijay Anandh:** 2% is the number one we are looking at, contribution.
- Siddharth Rajpurohit:** Yes. For FY '26?
- R. Vijay Anandh:** Yes. Yes.
- Siddharth Rajpurohit:** Okay. And going forward, how this contribution will rise?
- R. Vijay Anandh:** We will be at 8% to 9% as we mentioned earlier, in the next 3, 4 years.
- Siddharth Rajpurohit:** Okay, sir. Okay. And during the quarter, we have seen that sequentially retail traders or wholesale traders have come down. The advances have come down significantly in this segment. So are you seeing any stress in the low ticket MSME or the wholesale trader side?
- R. Vijay Anandh:** No. After this Udyam registration certificate, they will eventually upgrade to MSME.
- Siddharth Rajpurohit:** But are you seeing any stress in the low ticket MSME space?
- R. Vijay Anandh:** We don't. We don't. We are not seeing that.
- Siddharth Rajpurohit:** Okay. And on the deposit side, sir, we have seen a sharp fall in the CA segment, also there's this fall in SA, but CA has seen a sharp fall in specific reason, sir?
- R. Vijay Anandh:** Yes, as we said, that's going to be the focus. That's what we have mentioned in the commentary as well. That's going to be the focus for the year for Q4 as well. We will get this corrected, for sure. There is some fluctuation. And government business, there are some fluctuations happening. We will get this corrected. And that's a focus area which we have mentioned in the commentary as well, if you recall.
- Siddharth Rajpurohit:** Sir, could you guide any number for the growth of total deposits?
- R. Vijay Anandh:** We will take out the credit growth, that's what we are looking at. Basically, our CD has to be around 85%. That's a number which we are looking net-net.
- Siddharth Rajpurohit:** Is broadly matching the credit growth?
- R. Vijay Anandh:** Yes.
- Moderator:** Our next question comes from Sanjeev Damani from SKD Consulting.
- Sanjeev Damani:** The first question from my side is that do we do advances against gold also or not?
- R. Vijay Anandh:** We give loans against gold.
- Sanjeev Damani:** Got you. So we have facilities in all branches to give advances against loans or only 2 branches are working like that?

- R. Vijay Anandh:** We have in most of the branches barring Metro.
- Sanjeev Damani:** Barring Metro. Okay, okay. Got it, sir. Second, sir, do we also advance construction advance to the builder also against mortgage of the development of property?
- R. Vijay Anandh:** Yes, we do. We have a portfolio there. We also fund.
- Sanjeev Damani:** Okay. And you said that you want to focus more on MSME. That means it is a secured advance always, because you must be taking pledge of their properties, plant and machinery, etc., giving this kind of advance? Or do you also advance against inventory and finished product?
- R. Vijay Anandh:** As you rightly mentioned, it's an MSME against collateral.
- Sanjeev Damani:** Okay. So it is fully secured?
- R. Vijay Anandh:** Yes, fully secured.
- Sanjeev Damani:** Last question is about the tie-up. When you use the word that you have made a tie-up with CSK, means -- I mean CSK is not into any financial. You have offered your card for CSK employees. I mean can we say like this?
- R. Vijay Anandh:** No. It's a co-branded credit card, which we want to launch between CUB and CSK, both being the reputed brands and we don't want to give any product features as of now. Maybe in a week's time, we will roll out as you will get to know there tie-up begins.
- Sanjeev Damani:** Okay. So the CSK will do the marketing of the credit card and...
- R. Vijay Anandh:** Sir, it's too early, we will come back to you within a week with the proper press release.
- Sanjeev Damani:** More clarification will come about...
- R. Vijay Anandh:** We have signed the agreement today morning, and we will come out with complete clarity on product features, branding everything within a week from now. You will get to hear from both CUB and CSK on this.
- Sanjeev Damani:** Okay. And similarly, you are planning to tie up like this with more organization where the card services will be provided by you, and there will be some sort of brand name along with the CUB card. Okay. And sir, last question is about the fact that RBI has recently given some relaxation to increase the liquidity in the market, so how much benefit our bank is going to get out of it?
- R. Vijay Anandh:** We should be getting around INR280 crores.
- Sanjeev Damani:** Okay. So INR250 crores will be more available with the bank to give advances?
- R. Vijay Anandh:** Yes.
- Moderator:** Our next question comes from Aman from Dolat Capital.

- Aman:** I have a few questions. First is, can you throw some light on your yield on advances? Why there was an increase and what the yield trajectory you are seeing? Secondly, if I missed, the SMA 2 number? And can you give me the breakup of gold agri yield and non-agri gold yield?
- R. Vijay Anandh:** So our yield on advances is 9.74% for 9 months. 9.81% for the quarter. I'll repeat it, 9.74% for 9 months and 9.81% for the quarter. This is on yield on advances. With respect to SMA 2, we have 960.56 to be precise SMA 2 against 990 in September '24. Our gold loan yield you wanted between agri and non-agri, right?
- Aman:** Yes, sir.
- R. Vijay Anandh:** 9.25% is for agri, 10.25% is for non-agri.
- Aman:** Okay. And what the yield trajectory you are seeing like?
- R. Vijay Anandh:** The yield trajectory is going to be the same. We don't see any increase. It's going to be the same.
- Aman:** Okay. And what was any specific reason for increase in this quarter?
- R. Vijay Anandh:** We have been hovering around the same number. And it's just a fluctuation of plus or minus 10 bps, what we have been seeing. If you see Q2, we were at 9.81%, and we have continued the 9.81% for Q3 as well. In Q1, we have a dip that made us for the year, 9.74%. Otherwise, we have been hovering at the same number.
- Moderator:** The next question comes from Parth from Axis Capital.
- Parth:** Congratulations on the quarter. Just one question. With the introduction of the retail loans like LAP housing, do we expect an increase in the yields going forward considering these loans will come at a higher yield than the pure MSME loans?
- R. Vijay Anandh:** No, sir. We don't think so because in a blended HL, we'll pull it down. We, in fact, we compress. I don't see any change in the yield with the retail.
- Moderator:** The next follow-up question comes from Shweta Upadhyay from Asit C Mehta.
- Shweta Upadhyay:** Sir, just one question. If you can help me understand how is the bank cost of deposits higher than the total cost of funds, like the cost of deposits for the quarter and previously, if I see it stands at 5.88%, whereas the cost of funds is lower, it's at 4.8%.
- R. Vijay Anandh:** So cost of funds has all the liabilities. Cost of deposit is only the deposits.
- Shweta Upadhyay:** Yes. So ideally, your cost of funds should also include the borrowings, which comes at a higher cost than the deposits, right?
- R. Vijay Anandh:** See, it's mainly because of capital reserve that we have around INR8,000 crores, which is at a free cost. Because of that, the cost of funds stood at 4.88. And when you compare to the yield cost of deposits of 5.88.

- Shweta Upadhyay:** Sir, what would be the bank cost of borrowing?
- R. Vijay Anandh:** The cost of borrowing is anywhere around 6.75 to 7.5, mainly because of the refinance. We don't have any other Tier 2 and all, so only from refinance.
- Moderator:** The next question comes from the line of Jai from ICICI Securities.
- Jai:** Sir, this is Jai here. I'm sorry if this question has already been asked or answered. Sir, I wanted you to check if you had any impact? Or how do you use this RBI circular on gold loan in which has been made a little bit more stringent? How does this -- has that impacted growth in any particular way? And how do you see -- have you made any changes in the product processes on both retail as well as agri side?
- R. Vijay Anandh:** We have been following this process for a couple of years. So this circular really did not impact us because in terms of process, in terms of LTV, in terms of data capturing, we have been strictly following this for the last 24 months, I would say, we are totally complied. We don't see any issues on the business going forward as well. To answer your question, net-net, we are fully complied already.
- Jai:** Right. And you did not have to change any product or maybe the LTV on agri or rollover or renewal for customers when it comes to the renewal?
- R. Vijay Anandh:** Nothing with respect to LTV or anything. We may have to just add 1 column for end use of the loan. That's the only change which we have done to capture. Otherwise, we don't need to change anything in terms of LTV or process.
- Jai:** Okay, sure. And sir, I mean, how do you look at the growth outlook considering that maybe you have some come from LDR. And how are the new products that -- I mean, where are we on the launch of new products? And how do you see the overall growth momentum for the bank?
- R. Vijay Anandh:** As we mentioned earlier, we want to be at 85% in LDR, and we have been saying 12% to 14% is a growth which we are focusing on. So we try to balance between these 2. And this growth predominantly comes from MSME/JL/retail. This is what the growth order which we are looking at. As we mentioned before, 2% to 2.5% is the number which we are looking in retail. So this is going to be our strategy, and there is no change in what we have planned or what we have discussed earlier.
- Jai:** Sir, I mean have we -- where are we on the launch of those products? Have these been commercially launched? Or -- I mean if you can just elaborate there?
- R. Vijay Anandh:** We have launched retail. We did a decent pilot in Q3. I mean, as we have said before, we had a launch in Delhi as well as in Bombay. We have in the panel a couple of DSAs who has started sourcing loan against property for us. As we mentioned before, we don't want to use DSAs or third-party sourcing for home loans. And we have also tied up with BC in Jaipur for affordable home loans.

So we are on track on what we have planned earlier, bearing 1 quarter delay. And this will continue to give results for us in retail. And MSME, our strategy remains the same, and the growth is going to be the same as what we have projected.

Jai: And overall growth, sir, I mean how do you see FY '26 year-on-year?

R. Vijay Anandh: That's what we said 12% to 14% is a number which we are looking at.

Jai: Okay. And we're already passed that number, right? I mean as of third quarter, we are...

R. Vijay Anandh: At 15%.

Jai: Already passed that. It seems to not be...

R. Vijay Anandh: We should be in the range of 12% to 14%. That's what we have said. 1% to 2% here or there is always there in this. Now there's the retail coming in, and I think we should always be there.

Jai: Okay, sure.

R. Vijay Anandh: Just to give additional line, we will be 1% to 2% more than the industry. That's what we wanted to be.

Moderator: The next question comes from Apurv Parikh from Equirus Securities.

Apurv Parikh: Sir, I have 2 questions. One is that let us say that in calendar year '25, we expect some rate cuts to happen. How will this impact on to your product pricing with respect to -- primarily on Q2 segments that you were MSME in agri, that is how we should consider that how the product pricing from City Union Bank will be communicated into the market and their impact on to the NIMs and cost of deposit.

Now because you have kind of faced some problem with speculative deposits in the recent past, if the rates go down, do you see some more intensification of reactions or efforts to elect one year deposit? This is the first question, and I'll maybe ask the second question.

R. Vijay Anandh: Okay. Our yield on 9.81% can drop down to 9.7%. This is what we have projected. We expect 0.10 to 0.12 bps. This is what the number which we are doing. Yearly, it will convert a short-term, mid-term. We would move down from 9.81% to 9.7%. That's the number which we are looking at.

Apurv Parikh: All right. And sir, as you said that you're kind of now focusing on expansion. However, on a quarter-over-quarter basis, the opex has remained flat. Now on one hand, your employee cost has gone down. On the other hand, your other opex has kind of risen up. So how should -- is there any operating leverage that we are missing? Or you can just throw some light on that?

R. Vijay Anandh: No, no, sir, actually, for with respect to the establishment expenses, the actuarial valuation for Q3 was lower when compared to Q2. Because of that, there was a decrease in the figure of around INR5 crores to INR6 crores. You can just to take it around INR185 crores for the Q4.

Moderator: We have our next question coming from the line of Gaurav Jani from Prabhudas Lilladher.

Gaurav Jani: Sir, after we reach a targeted level of PCR, right? So what sort of normalized credit cost are we estimating? Right now, we're at about 60, 65 basis points. So yes?

R. Vijay Anandh: Our credit cards will remain flat. We don't see any surge in this.

Gaurav Jani: So what you're saying is, sir, it would remain between 60, 65 basis points?

R. Vijay Anandh: Correct. And we should also note that it depends on the economic cycle and it depends on the slippage. We expect it to remain flat.

Moderator: Thank you. Our next question comes from Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: Yes, sir. So just on margin front., like because the bank is undergoing a change in the credit composition next year. And then we have interest rate cycle also, so how do we kind of look ahead in the margin trajectory in FY '26. So if you can give some rough guidance would be helpful?

R. Vijay Anandh: As we mentioned in our commentary, we don't see major changes in the composition and we would be around plus or minus 10 bps from 3.6.

Rakesh Kumar: 3.6, okay. And credit cost guidance you are saying is mostly around this level?

R. Vijay Anandh: Yes, this level.

Rakesh Kumar: Got it. And targeted PCR number would be -- what number we are looking at targeted PCR number, sir?

R. Vijay Anandh: We are looking at 60.

Rakesh Kumar: Understood. Thank you so much.

Moderator: Thank you. The next question comes from Siddharth Rajpurohit from YES Securities. Please go ahead.

Siddharth Rajpurohit: Thank you sir for the opportunity again. Can you guide on -- I mean currently your recoveries and upgrades are almost equal to your slippages, so till what time you see in this case?

R. Vijay Anandh: The slippages lesser than recovery, we expect it to happen for the next two quarters, more or less.

Siddharth Rajpurohit: Okay. So for the H2 till H1 next year?

R. Vijay Anandh: Yes, we can keep it at H1.

- Siddharth Rajpurohit:** And the rising cost of deposits is can you -- what -- does it -- the lower share of CASA does it explain the rise in cost of deposits?
- R. Vijay Anandh:** Yes, you're right.
- Siddharth Rajpurohit:** Okay, sir. And can you give the LCR number, average LCR for the quarter?
- R. Vijay Anandh:** 119.
- Siddharth Rajpurohit:** Average?
- R. Vijay Anandh:** Yes.
- Siddharth Rajpurohit:** Thank you sir. Thank you very much. All the best.
- Moderator:** Thank you. The next question comes Pritesh Bumb from DAM Capital Advisors. Please go ahead.
- Pritesh Bumb:** Sir, just a question on fee side. Our fees to assets has slightly improving volatile, but what is the sense that you go from here on given that the loan growth is still quite decent. But our fee is not that much. Fee to asset is not that much better. So anything on that?
- R. Vijay Anandh:** We don't see INR5 crores, INR10 crores is going to be the average jump, if at all. We see this as stable. And we have been almost on the same number for the last three quarters and this trend should continue.
- Pritesh Bumb:** Yes. So we were somewhere -- so if I look at my number what he is asking we were somewhere around 1.0 to 1.1 last year then we moved to -- from 1.1 to 1.2. So is there a trend that can still improve or you -- as you said that maybe are only at about 1.2, 1.25?
- R. Vijay Anandh:** No. As I mentioned before, we will be the same range between 1.2, the range of 1.2.
- Pritesh Bumb:** Sure, sir. Second, sir, on the extension to that margin question, basically, if any upward biases we can see in margins or any product tweaking we can do for margins to move up in terms of where margins can settle, especially what happens in this February from the RBI side, anything on that?
- R. Vijay Anandh:** We don't expect as we mentioned before the margin to go up for sure because assets get repriced quickly. So if the rate cut happens the asset gets repriced quickly and it takes at least three, four quarters for the liabilities to get that benefit for the bank. Hence, we don't expect that to happen. So that -- it's going to be the same. We don't see. It gets compressed, conversion as short term.
- Pritesh Bumb:** Got it.
- R. Vijay Anandh:** So if it is going to be asset, it gets repriced quickly. So we don't have an option. If this is going to be liabilities, then we have to wait for three, four quarters since I don't see any scope in this.

- Pritesh Bumb:** Got it. Sir, if you can -- if you have not disclose this number, if you can mention how much is your EBLR, MCLR and other benchmark books if you've not disclosed this to anyone because I joined a bit late?
- R. Vijay Anandh:** See, as of now, the EBLR around 45 percentage and the MCLR around 30 percentage, around 15 percentage as fixed rate and 5 percentage towards the NPA, gross NPA.
- Pritesh Bumb:** Sorry, sir. EBLR is 45, is it?
- R. Vijay Anandh:** But it was reduced from 50 to 45 in the current quarter. Because of the gold loan, non-agri portion mainly moved from EBLR to fixed rate.
- Pritesh Bumb:** Okay. Gold loan have moved from EBLR to fixed rate?
- R. Vijay Anandh:** Yes.
- Pritesh Bumb:** Okay. That's it from my side. Thank you so much.
- Moderator:** Thank you. Our next follow-up question is from Pritesh Bumb from DAM Capital Advisors. Please go ahead.
- Pritesh Bumb:** Just forgot to ask, as you said that loan growth will be still decent enough given that our margins will be a little bit under pressure when the rate outcomes happen. Isn't it prudent a bit to grow slower early on in the -- once the rate cuts start happening, you get a sense and then maybe move up in terms of lending as a growth perspective? Any thoughts on that?
- R. Vijay Anandh:** We said margins will be stable. We said margin will be stable for the year as a whole.
- Pritesh Bumb:** Okay. So of course, year as a whole because you -- as I said that it will be a lag basis, the liabilities will be repriced over time...
- R. Vijay Anandh:** Yes, liabilities will get priced in two, three quarters and assets get priced immediately, repriced immediately. And hence margin will become -- if you see for the full year, this is going to stabilize because of both the increase which being done, one immediately, one within three, four quarters.
- Pritesh Bumb:** Okay. So we'll continue to grow, but then you are confident that the margins will come back with the lag by the end of the year...
- R. Vijay Anandh:** Correct. As mentioned in my commentary also, we will be around 3.6% with plus or minus 10 bps. That's the commentary which we have given when we were discussing the results and we will continue to maintain that.
- Pritesh Bumb:** Sure sir. Thank you so much. Thank you for clarifying that.
- Moderator:** Thank you. The next question comes from Gaurav Jani from Prabhudas Lilladher. Please go ahead.

- Gaurav Jani:** Just taken my question forward on asset quality actually. So we do have some tailwinds in terms of recoveries because of the earlier or COVID stress right now. And assuming that within a couple of quarters that normalizes, how is actually asset quality is shaping up in your area of operations specifically Tamil Nadu and the segment you created which is MSME. So any sort of early signs of stress there and then how are sort of credits shaping up? Yes, that is it. I would like to have a qualitative comments from that instance?
- R. Vijay Anandh:** So as we mentioned before for the next couple of quarters, slippages will be less and recoveries should be more. And as mentioned before we will exit this year with INR800 crores of slippages. And next year, we should close at INR700 crores.
- Gaurav Jani:** No, sir, I understood that. I didn't mean in terms of numbers. I just thought how is -- if the environment is sort of tough otherwise. We are seeing sort of early signs of stress in some other segments in retail or probably not in MSME, but in retail, so any signs of stress in MSME that you're looking at?
- R. Vijay Anandh:** We will be stable, for you first question. And we don't see -- that's what we have given the guidance of INR700 crores for the next year. And in fact, our SMA numbers which have come down -- has come down substantially down. To be very precise, we were at -- we are at 4,596.75. When we have closed the December '24.
- So overall SMA figures have come down drastically. In fact, our September book SMA was 5,253, and has dropped to 4,596. In fact, both SMA 0,1 and 2 put together, now we are in single digits.
- Moderator:** The next question comes from Aman from Dolat Capital.
- Aman:** Yes. Sir, just a follow-up question I missed on your earlier comment, INR700 crores was of what guidance, sir?
- R. Vijay Anandh:** Slippages. We are at INR800 crores. Next year, we will be -- we are looking at INR700 crores of slippages.
- Aman:** Okay. And the recovery guidance is intact, right?
- R. Vijay Anandh:** Yes.
- Moderator:** Our next follow-up question comes from Pritesh Bumb from DAM Capital Advisors.
- Pritesh Bumb:** Sorry, sir, on the slippages side, you mentioned INR800 crores this year, right? We are at about INR555 crores already. So does that imply that -- I'm not implying anything, but how do we see it in that sense is that it's still INR250 crores of slippage?
- R. Vijay Anandh:** We have been averaging the numbers, and we have given the numbers of INR800 crores for the year. All we are trying to say will be INR800 crores or less than that. That's what we meant. We are at INR550-odd crores, and the trend continues, and we don't see any spike in that.

- Pritesh Bumb:** Okay. But because already INR555 crores, that means the implied slippage for Q3 was about INR200 crores. And it's still -- if you don't even hit that number, if you are like around INR700 crores also, it will be like a similar range of what H1 was be we?
- R. Vijay Anandh:** We normally keep it as INR200 crores to INR295 crores, that's the number with us. And that's the reason why when we started this FY, we said INR800 crores, we would be at -- and we just want to clarify that we will be well within that what we have given at the beginning of the year.
- Pritesh Bumb:** Right. Sir, second question was in terms of recovery from written-off pool. What kind of a pool we have right now, and what we are seeing is that there has been slightly lower recovery this time around in 9 months. So any thought process on that? You said about recovery from normal slippages and nominal GNPA to be intact as a guidance. But what about the pool and how much can we grow from there as well?
- R. Vijay Anandh:** So we have INR1,400 crores book in the write-off pool. And our 9 months actually is around INR154 crores to be precise, and Q3 actually is INR46.2 crores.
- Pritesh Bumb:** Sir, last statement I missed.
- R. Vijay Anandh:** Our 9 months actual is INR154.71 crores to be very precise, INR154.71 crores asset recoveries. And for Q3, the actual figure is INR46.23 crores. And we have been hitting INR60 crores to INR80 crores on an average per quarter.
- Pritesh Bumb:** So we should build the same number going forward as well? And we can do that easily.
- R. Vijay Anandh:** Yes. That's the number which we are looking at.
- Pritesh Bumb:** Got it, sir. And lastly, our cost to income has been relatively coming down. So we -- this quarter also, I think we are down, and we added about 46, I think 47, 46. What do you see from here on in terms of cost to income? Do we see that it may inch up a bit and it may remain stable here? How do you think about it?
- R. Vijay Anandh:** We would be around 48% to 50%. Our retail expenses is to take off. So when the retail expenses takes off, we will be at 48% to 50% and when we start delivering, it will come back. We have already incurred retail expenses. And we need to start getting money back for what we have invested.
- Pritesh Bumb:** Sir, you're saying you have incurred the retail expenses, and you're waiting for...
- R. Vijay Anandh:** We are waiting for the output to happen.
- Pritesh Bumb:** Okay. But what will it lead to that 48% to 50% type of cost to income because it seems to be that there will be some more investments in terms for opex.
- R. Vijay Anandh:** So 48% to 50% is a number which we are looking at in CIR, that's the number which we have been already -- which we have been always been the trend.

Moderator: Ladies and gentlemen, as there are no further questions, I now hand the conference over to the management for closing comments.

R. Vijay Anandh: I now hand over my phone to my MD, CEO for the closing remarks.

N. Kamakodi: Good evening, everyone, and Dr. Kamakodi here. Thanks for attending this con call. I would like to probably close with a few closing comments. The Q3 has been a wonderful quarter. We are able to get back the growth, which was eluding us for quite some time. As Vijay explained, we had some amount of reducing growth in the calendar year '23 from about 12, 13 percentage to about 0 percentage.

In '24 calendar year, it improved, in fact, from let's say, 0 to 2 percentage to almost the 15 percentage whatever we have seen. So the growth is back to industry level plus 2 percentage, which is a very healthy sign. We hope we should be able to go ahead with that incremental growth that 1 or 2 percentage over and above the growth rate of the industry, as Vijay said.

Now the contribution of retail, as Vijay said, it's a very miniscule. The entire growth has come from our conventional MSME, commercial trading, agriculture, gold loan business only. So some amount of, let's say, additional growth opportunities will be available from the retail portfolio for the next financial year, maybe adding about another 1 or 2 percentage in the incremental growth.

As he rightly explained, our focus will be more on the secured front. The unsecured front will be very miniscule, particularly the credit card, whatever he said, will be very miniscule, particularly to our existing customers, and he also explained about our tie up with the CSK and all. It is more to create a brand awareness, which will be helping us to go forward in to the co-branded credit card per se.

On retail front, we have been incurring cost; the return is yet to come. When the return actually comes into, our cost to income also will start moderating for the next year. There is a very good improvement in the asset quality, which we could see, particularly both in terms of the SMAs and also the slippage is getting into control.

As we expected at the year beginning, we should be closing a year below the promised number of about INR800 crores. As you all know in the last 2, 3 years, it reduced from INR1,200 crores -- INR2,000 crores to INR1,000 crores, let's say, INR800 crores sort of. Next year, it should be moderating further.

Slippages. The recoveries are also improving, where the recoveries are more than the slippages. So incremental credit provisioning, whatever we are making is more to increase the provision coverage ratio and decrease the net NPA. So we -- initially, we shared that we should be getting to 1 to 1.25 percentage in the net NPA. We are also on track on that front.

Be it the growth, similarly, you might have clearly seen the operating profit, net interest margin, net interest income on every parameter there is, let's say, stable and steady growth, whatever we had been declaring in the earlier quarters.

So we hope to maintain the same trend. In fact, if you had a chance to look into last 50 to 60 quarters, for about over 90 percentage of the quarters, our margin had been in the range of about 3.4 to 3.7. A few quarters, it was above 4 percentage and 1 or 2 quarters, it was below 3.4.

But as shared in the earlier quarters, we should be able to maintain the stable net interest margin that 3.6 percentage plus or minus 10 basis points, as rightly pointed out by Vijay. When we enter into the decreasing interest rate scenario, there will be a moderation in the yield, but it will take a few quarters to catch up for the cost of deposits front. Though there could be some quarterly aberrations, year as a whole, we should be able to maintain at the same level in terms of margins also.

So overall, the third quarter has almost got us back to the period when we used to offer a stable results in the past that almost closer to the best 2 quarters, whatever we had declared in the past that the Q3 numbers have come and Q4 is also promising in the same way. We are not in a hurry.

Fortunately, we did not go faster in unsecured retail and all, which has helped us to like ensure that our asset quality is intact and also it is improving, both in terms of gross and net NPA numbers, the numbers are decreasing. The recoveries are more than the slippages. And the SMA numbers are also coming down in a stable fashion.

Overall, across all parameters, the performance that has happened in the Q3 has been very stable and encouraging. We hope to see the same thing for the fourth quarter. Based on whatever we see, the next year, things should be even better with this overall background. Another thing is that you might have clearly seen the operating profit growth also showing better.

So the, incremental provisioning as we enter into sub-1 percentage, your overall net NPA, the incremental provisioning requirement may also come down once we have crossed less than 1 percentage net NPA and the coverage ratio also above 60 percentage or whatever.

You might have, in fact, seen the operating profit level growth for Q2 to Q3 is almost 20 percentage which is also very encouraging. So across almost all parameters, things have been pretty stable and the growth and the other momentum are back and things are on track. And like we have to, let's say, and do some work in the liability side to ensure that our credit growth will not get hampered because of non-availability of deposits and all.

But as you have already seen, those numbers are also almost converging and the CD ratio, we should be able to maintain at about 85 percentage, and the LCR calculations are also around 119 that level. So overall, things are encouraging. And things are back on track in almost every parameter.

I hope going forward, things should get better. And with this positive tone, I want to conclude this con call. As said in the past, the names of our contact persons are already given in our investor presentation. You can get in touch with those, our CFO, Mr. Sadagopan or Mr. Raguraman or Mr. Jayaraman or anybody for that matter, if at all you have any specific questions to answer.

Thanks for your patience and supporting us, and this Q3 has been satisfactory quarter for us across all multiple parameters, and we hope the trend will continue for the near future. As of now on asset quality front, things are looking extremely good. The SMA numbers are also decreasing.

The next year, the capex looks -- it is going to be lower than whatever we have seen in the current year. Hopefully, if reducing interest rate cycle starts, these things should be even getting better for the economy as a whole and for the growth for the future. Overall, I mean, it's a satisfactory quarter, and I hope things should get better and better as we move forward.

With closing remarks, I once again thank you all and close this con call. Our support to AMBIT Capital for arranging this con call and as -- once again, thank you all.

Moderator:

Thank you. On behalf of City Union Bank Limited, that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.