CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – MARCH 2016

Good evening everybody, Dr. Kamakodi here.

Hearty welcome to all of you for this conference call to discuss Q4 and FY2016 financial results of the City Union Bank. The Board of Directors adopted the audited results today at Chennai.

I will brief the overview and Mr. Ramesh, CFO will run through the numbers for Q4 FY16 & FY 2016 and at the end we can have the Q & A.

Our Non-Executive Chairman Shri. S. Balasubramanian retired from our Board after completing the tenure on 03.05.2016 and will continue his association with the Bank as Honorary Chairman Emeritus of the City Union Bank Foundation, our CSR arm.

Shri. S. Mahalingam, Chartered Accountant, our existing Board member and retired CFO – Tata Consultancy Service Ltd (TCS) has been appointed as Non-Executive Chairman for a period of three years effective from 04.05.2016. We are sure that his guidance will be immensely helpful for CUB in its growth journey.

Shri. M. Narayanan, a practicing Chartered Account cum Cost Accountant has been inducted into the Board.

As you all know, the Financial Year 2015-16 results for banking sector at large is mixed. On one hand you have many Banks, particularly Govt. owned Banks and also few large Private Sector Banks declaring weak results including huge losses. A few of the Banks had to create Deferred Tax Assets and a few have PAT more than PBT. On the other side you have few Banks, particularly a few new Private Banks declaring exemplary results both in business and profitability growth. We are somewhere in between and not getting into asset quality review issues while maintaining cautious approach on growth.

Hope you all have received the presentation.

Considering the sluggish environment prevailed during the year, looks like, we have done OK so far. Almost all parameters are closer to whatever we had projected during the year beginning. The sustainability depends on the future path general economy takes.

For FY 2015-16, the deposit has increased by 13% and on credit side we had projected a credit growth of 12% - 15% and we have achieved 17%. If we consider fluctuations in Cash Credit accounts, our growth is within the range projected.

You may remember that we used to have around 1.5% NPA slippage to closing advances till 2013 which almost doubled to 2.8% for FY2014 and moderated to 2.35% for FY2015. This year the slippage was around 2.02% against our expectation of 2 – 2.25%. During the quarter, the steel account which we have been discussing repeatedly in our con calls have slipped to NPA whose exposure is Rs.69 crore. For FY16-17, we expect on as is where is condition that the slippage will be 1.75% – 2% on closing advances. The underlying assumption is that the general economy will stabilize at current level and start to improve from second half. You never know. Governments are defaulting. We have lent Rs.122 cr towards food credit to Government of Punjab under consortium.

The Net Interest Margin for Q4 stood at 3.96% and for whole year it stands at 3.81%. As we have been stressing current NIMs are about 40-50 bps over and above the sustainable average NIM level of 3.4% to 3.5%.

The net interest income for the Q4 has grown at healthy level of 29%. The operating profit for Q4 grew by 25% while Net Profit grew by 13%.

For current year 16-17 we expect a PAT growth of around 10 - 12%. You might have seen in the earlier quarters of the current year, there were incomes like Rs.19.54 Cr of Income tax interest and Rs.13.60 Cr of RBI incentives on cash dispensers purchase. We may not have them this year. Our wage revisions with our staff union and officer association are due during the year. Hence there will be some pressure of 30- 40 cr on profit growth. This will have 3-4% impact on cost to income ratio which will moderate over next 3 years. We have to achieve growth of profit over and above this.

We closed the year with cost to income ratio of 40.10%. As we discussed in the earlier calls, we have achieved 2-3% advantage in cost to income ratio because of alternate channel migration. About 80% of transactions have migrated to non branch channels like ATMs, cash acceptor, internet banking, mobile banking etc. It is one of the main reason to protect profitability despite lower business growth. During the quarter we have introduced technology products like wallets and credit card. The credit card is now issued at staff level and based on the feedback the same will be extended to customers. Credit card will be to fulfill existing customer needs and we will not be aggressive. The other initiatives like cardless cash withdrawal through ATMS are on the offing.

We are able to maintain ROA of 1.5% for FY 15-16. We are taking best possible efforts to maintain RoA at this level for the current year also. In the last 3 – 4 years we have learnt enough lessons to become totally spiritual. From what Lord Krishna said in Bhagavad Gita (chapter – 2, Verse – 47),

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

**“Karmanye vadhikaraste Ma Phaleshu Kadachana,
Ma Karmaphalahetur bhurma Te Sangostva karmani”. The meaning of the verse is – “You have the right to work only but never to its fruits. Let not the fruits of action be your motive, nor let your attachment be to inaction”.**

We used to maintain 18-20% ROE which dropped after Capital raising two years back. Currently, it stands at 15.5% - 16%. ROE will start to improve along with growth only. We are atleast two years away from the point.

During the quarter we have not restructured any major / consortium accounts. However, as informed during the last con call we have restructured 30 borrowers accounts in MSME / retail amounting to Rs. 4.44 cr (exposure of Rs. 18.36 cr) which were affected in Chennai floods which were declared as national disaster by the Govt.

We have not sold any assets to ARCs during the entire year FY2016. The concerns on NPA recovery from liquidation of collaterals still remain. The liquidity in real estate market will come with the growth in general economy. We expect atleast 25-30% redemption of SRs before the current year end. So far no provision was required on SR valuation. We may think of ARC sale after some SR redemption.

For FY 2015-16, we have already declared an interim dividend of 100% (i.e.Re.1/-) for a face value of Re.1/- per equity share on 12th March 2016. Further, now the Board has recommended a final dividend of 20% (i.e. 20 paise) for a face value of Re.1/- per equity share subject to the approval of shareholders.

To sum up,
Though overall current environment does not suggest the arrival of growth phase, we could see a lot of growth opportunities from the migration from other Banks particularly Govt. owned banks. But we are careful and cherry picking while not chasing growth numbers. In the present scenario, we have all ingredients for growth. Problems in hand looks to be less when compared to industry. Capital levels are adequate. Technology infrastructure is in place. Opportunities for eating into Govt. owned bank market share are there. But we are not jumping, and taking a cautious approach. We will jump once we are confident of the general economic growth. Though it appears bottoming is behind us and few visible green sprouts and anecdotal evidences suggests some positivity, the big question to be answered is, if 80% of banking system is on fire

fighting mode, who is going to fund the growth? or rather can the economy get back to growth made when 80% of banking system is in fire fighting mode.

Can the general economy grow without being supported by 80% of banking system? What is going to be the effect on portion of economy which looks okay now? How long will it take to see "Ache Din"?

On "as is where is" condition, believing that bottom is behind us growth will start showing up from the year end, we expect for the current financial year 2016-17:

- will take best efforts to
  - ✓ achieve a credit growth between 15% and 18%
  - ✓ achieve profit growth of 10% – 12%
  - ✓ keep incremental slippage below 2%

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

Thank you MD sir … I am Ramesh, CFO.

Good evening every body and thank you for attending the City Union Bank's earnings call of Q4 FY 16 and for FY 2016.

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

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

In a nutshell, the Bank has recorded a growth of 25% in Operating profit in Q4 FY 2016 over the corresponding period of 2015. In absolute terms the Operating profit increased from Rs.179 cr to Rs.224 cr. The growth in Operating Profit in FY 16 was 20% higher from Rs.693 cr to Rs. 833 cr. The Net Profit for Q4 FY 2016 as well as for FY 2016 has increased by 13%. For FY 16 the Net Profit was Rs.445 cr as compared to Rs.395 cr in the previous year. For Q4 FY 16 the same has increased from Rs.99 cr to Rs.112 cr. The Net NPA sequentially increased by 4 bps in Q4 FY 2016 to 1.53% which was 1.30% on 31.03.2015.

Coming to the Business growth, our Deposits has increased by Rs.3083 cr from Rs.24075 cr to Rs.27158 cr in FY 2016 thereby registering a growth of 13%.

Similarly Advances increased by Rs.3164 cr from Rs.18089 cr to Rs.21253 cr translating into 17% growth. Thus the total business grew by 15% to Rs.48411 for FY 2016 from Rs.42164 last year.

CASA has increased by 19% by Rs.902 cr from Rs.4631 cr to Rs.5533 cr. The share of CASA in total deposits was 20%. While CA increased by 15%, SA grew higher at 22%.

The Cost of Deposits for FY 16 decreased by 53 bps to 7.62% from 8.15% compared with last year. Cost of Deposits for Q4 FY 16 was 7.39% Vs 8.14% in last year Q4. Similarly for FY 2016 the same has decreased from 8.15% last year to 7.62% for FY 2016.

The yield on advances for FY 16 stood at 12.83% as compared with 13.18% in FY 15. For Q4 FY 16 it stood at 12.59% vs 13.06%.

The interest yield on Investments has decreased by 18 bps to 7.45% for FY 16 as compared to 7.63% for FY 15 and in Q4 FY 16 it decreased by 17 basis points to 7.48% from 7.65%.

The net interest income for Q4 FY 16 stood at Rs.264 cr as against Rs.205 cr in the corresponding period thereby registering a growth of 29%. The net interest income for the whole FY 16 grew by 22% from Rs. 807 cr to Rs. 981 cr. The Net Interest Margin for Q4 FY 16 stood at 3.96% vis-à-vis 3.40% in Q4 FY 15 and for the whole FY 2016 NIM stood at 3.81% as compared to 3.44% for FY2015.

The other income of the bank in Q4 FY 16 was Rs.107 cr as compared to Rs.105 cr in the corresponding quarter reflecting a marginal increase. Likewise for the whole year the same is stood at Rs.410 cr Vs Rs.404 cr last year. CEB income for Q4 FY 2016 marginally increased from Rs.53 cr to Rs.54 cr and for the whole year the same has increased from Rs.197 cr to Rs.211 cr.

Operating expenditure has increased by 12% in Q4 FY 16 from Rs.131 cr to Rs.148 cr and for whole year it rose from Rs.519 cr to Rs.558 cr registering an increase of 7%. In FY 2016 the establishment expenses increased from Rs.210 cr to Rs.213 cr and other operating expenses increased from Rs.309 cr to Rs.345 cr which was due to normal increase in expenses like Rent, Electricity, Insurance, Depreciation, etc.

Thus, the operating profit for Q4 FY16 has increased by 25% from Rs.179 cr to Rs.224 cr. For the FY 16, the same has increased by 20% from Rs.693 cr to Rs.833 cr.

For Q4 FY 2016, the total provisions have increased by 23% from Rs.91 cr to Rs.112 cr. The total provisions for FY 16 were increased by 26% from Rs.309 cr to Rs.389 cr. For Q4 FY 2016 we have made 7.50% provision as advised by RBI to all consortium banks in connection with lending to Government of Punjab under food credit that amounts to Rs.9.18 cr. We have provided Rs. 41 cr towards taxation in Q4 FY 16 as against Rs.32.50 cr for the corresponding period and for FY 2016 the same was Rs.158 cr as against Rs.126 cr last year. Tax provision to PBT in FY 16 was at 26% and for Q4 FY 16 it was 27%.

The Net Profit for the fourth quarter thus has increased by 13% from Rs. 99 cr to Rs. 112 cr. For FY 2016 the same has increased by 13% to Rs.445 cr from Rs.395 cr last year.

Return on Assets for the year ended FY 2016 improved to 1.50% Vs 1.49% in the corresponding period and in Q4 the same was 1.46% vs 1.45%. The Return on equity stood at 15.60% for FY 2016 as against 16.91% for FY2015 and 14.94% for Q4 FY 2016 vis 15.13% for Q4FY15.

Cost to income ratio decreased to 40.10% for FY 16 from 42.83% in FY 15. Similarly the cost to income ratio stood at 39.73% for Q4 FY 16 as against 42.34% last year Q4 FY 15.

The Gross NPA ratio for FY 2016 increased marginally by 4 bps from 2.37% in Dec 2015 to 2.41% in March 2016. Likewise the Net NPA to Net advances increased marginally by 4 bps from 1.49% in Dec 2015 to 1.53% in March 2016.

During the year we have not sold any assets to ARCS and there was no NAV loss provisions for the assets sold to ARCs. The total outstanding of SR was Rs.373 cr.

During the last quarter, we have restructured 30 borrowal accounts amounting to total exposure of Rs.18 cr which were affected in Chennai floods and were declared as National disaster by the Government. The total restructured standard advances currently stood at Rs.204 cr which is 0.96% of our Gross advances. In Q4 FY 16 one account amounting to Rs.69 cr slipped to NPA from restructured standard category.

During the last FY 2015-16, the bank was Awarded the "Best small sized Bank" for FY 2014-15 by Business World – PWC Best Banks' survey 2015. The Bank has won "Productivity & Efficiency" award for small banks conducted by Business Today – KPMG study on Indian Best Banks' Survey 2015. The Bank has also been awarded by Financial Express – Ernst & Young as the "Best Old Private Sector Bank" consecutively for the last two financial years 2014 & 2015.

With this I conclude and over to you for questions.

Thank you all!

Question & Answers session follows…

Mr. M.B. Mahesh, Kotak:

Q: Tamilnad Government now announced a waiver on crop loans. How it will affect your collection?

A: The waiver is applicable only to loans availed by small and marginal farmers from Co-operative Banks. But we have exposure to such crop loans is in single digit only or close to double digit. We have to wait for full details.

Q: For Iron & Steel, what is your exposure and how is that sector performing?

A: We have 3% exposure (` 743 Cr) to Iron & Steel sector. We don't expect much problems from that sector. During the last quarter one restructured steel unit account slipped in to NPA category for around ` 69 cr which we have been discussing in the last 3 – 4 quarters. Presently nothing is more under the watch list.

Q: The credit growth in Tamilnadu is weak whereas Andhra & Telengana seems to be better positioned. What is your view?

A: We are getting incremental growth in Tamilnadu. Trends are visible now and we don't want to push for the aggressive growth. Generally our growth much depends on general economic growth and TN is comparable to other parts of the Country in the growth.

Mr. Kashyap Trivedi, Capital 72:

Q : During the last year the credit growth was spectacular and going forward what is your view on growth including gold loan and excluding gold loan?

A : I don't want to extrapolate the growth based on the last year growth unless otherwise we have to wait for the progress over the next 2 – 3 years. There has been de-growth in gold loans last year around `440 crs. We are expecting a credit growth of 15% - 18% for the current year.

It all depends on how general economy is going to perform and we have to wait up to third quarter to get a clear view on the credit growth.

Q : Any change in approach for the improvement in savings account?

A : We have discussed during the last 2 – 3 con-call about the alternate channel migration and that will give enough time for the staff to go for marketing. We are putting all our efforts to improve the same in the coming years.

Mr. Gaurav Jani, Centrum Broking:

Q : You have given a guidance of 15 – 18% of credit growth in FY 2016-17 and what is the geography and segment you are expecting growth to come from?

A : There is no change in the approach and we are expecting the growth across all segments and across all geographies and there is no any particular segment to concentrate.

Q : In the opening remarks, you have explained that there is some fluctuations in the CC accounts. Can you explain about that?

A : We observed certain fluctuations of 1% apprx. in CC account in the month of March. Otherwise, our growth during the last year around 12 – 15% as per the guidance given.

Q : What is the guidance on credit cost for FY 17?

A : The credit cost mostly depends on the recovery of written of accounts as well as slippages. Generally our slippage used to be 1.25% - 1.50% upto 2013. In 2014, it went up to 2.85% and moderated to 2.3% in 2015 and for the current year it was

2.02%. We are expecting that the slippage will moderate to below 2% in the current year.

Q : Due to wage revision you told that the cost to income ratio will go up by 3 – 4%. Is it for the whole year?

A : Yes it is for the whole year. Our wage revision is pending for revision from 1st October 2016 and we want to pre-pone the same from July 2016. Also, we are on the view that if the total business of the bank exceeded 50,000 cr mark we would revise even earlier. For the whole year, the staff cost is around 210 cr and we can expect 12 – 15% increase appx it works out to `10 cr per quarter.

Q : Out of `127 cr of slippage, one account contributed for ` 69 cr and what are the other major accounts?

A : After the ` 69 cr NPA account, the next account is about ` 6 cr and all the others are small in number.

Q : What is quantum of lending to Government of Punjab under food credit?

A : We have lent ` 122 cr to Government of Punjab under food credit and we have made a provision to the tune of 7.50% that works out to ` 9.18 cr and also we have to make another 7.50% provision for next quarter as per RBI instructions.

Q : What is outstanding SR amount?

A : The total outstanding in SR is ` 373 cr.

Mr. Vikas Sharda, NT Asset:

Q : The fee income growth is low when compared to last year. What is the reason?

A : The CEB & charges contributed 7% growth for FY 16 and for Q4 the same was 2%. The increment is mainly from Loan processing charges.

Q : What is the wage revision cycle?

A : Last time we have entered into agreement with the staff union and association for 5 years and this time also we expect the same to continue.

Mr. Gaurav Agarwal:

Q : What is the view on increase in other operating expenses for FY 17?

A : Last year the total op. expenses increased by 8%. We expect around 10 – 12% normal increase in other operating expenses apart from the wage revision. The impact of wage increase is around `10 cr per quarter after the revision.

Q : Now NIM is at 5 year high, whether it is sustainable and what is your guidance on the same?

A : The deposit cost has come drastically rather than yield on advances. The yield on advances much depends demand for funds which is low at present. The reduction in RBI policy rates has lowered the deposit cost. Hence we cannot sustain the present level of NIM. We have maintained the average NIM around 3.50% for many quarters in the past which we want to continue.

Mr. Pavan Aluwalia, Laburnum Capital:

Q : As your loans are collateralized by real estate, whether the present stagnation in real estate will affect your recoveries? What is your view on the recovery part?

A : The previous economic downturn happened in 1999 – 2001. In 2003 – 2004, the gross NPA levels touched 14 - 15%. Almost every bank in that period showed negative networth if you deduct the net NPA from the net worth. During 2004 – 05, the ten year YTM fell sharply and banks made huge profit in treasury which was used to restore health. After that the credit growth also picked up during 2006 – 2010. Normally, we used to have a recovery percentage of 70 – 80% in the past. Typically our loans are based on cash flow from operations and the real estate collateral is only secondary. The recovery of NPA accounts mainly depends on real estate market. We are waiting for the right time to sell of the property. The present recovery on NPA is impeded by some stay some orders, vacancies of DRT presiding officers, etc.

Mr. Roshan Chutkey, ICICI Prudential:

Q : What is your exposure to Commercial Real Estate and what is it exactly?

A : It is mainly based on the regulatory prescription and we have not lent to any large real estate promoters developing 300 – 400 units. Presently we have `1162 cr (5% exposure) to that particular sector.

Q : What is your plan of branch opening for next year?

A : We want to open min – 50 and max – 75 branches in the current year.