

CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM
CONCALL TRANSCRIPT OF OUR EARNINGS CALL – DECEMBER 2018

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 2018 financial results of City Union Bank. The Board of Directors adopted the unaudited results today at Chennai.

During the beginning of the Current financial year we shared with you all the following expectations for the Current financial year 2018-19

1. The expected credit growth for the FY18-19 would be 18-20%
2. The slippage ratio to closing Advances should be restricted between 1.75% and 2%
3. Profit booking opportunities from Domestic treasury will not be available and operating profit level growth will be under pressure. Profit after tax has to grow only by better NPA management.

The performance highlights of Q3 FY19 is as given below:

- ✓ We have recorded a growth of 13% in Deposits.
- ✓ Advances grew by 17%, but for the cyclone GAJA in our part of Tamilnadu on November 16, 2018 the growth would have crossed 18% in line with our expectations. Cauvery delta faced huge shock due to cyclone GAJA.
- ✓ Thus, Business grew by 15% and stands at Rs. 66141 cr.
- ✓ Growth in Operating Profit for Q3 FY19 was 4%.and 9months period there was slight dip due to non-availability of treasury profit as discussed during earlier concalls.

- ✓ PAT recorded a growth of 15% mainly on account of lower provisions because of better NPA/recovery management.
- ✓ NII for Q3 FY19 recorded a growth of 15%.

The slippage ratio to closing advances for nine months FY19 is 1.86% and for Q3FY19 is 2.16%. The spike in slippage ratio was on account of the paper mill account about which we had discussed during Q1 & Q2 call and the same has been classified as NPA.

Gross & Net NPA stands at 2.91% & 1.74% respectively as against 3.30% and 1.74% last year. We don't have any lumpy account at hand as of now unless and otherwise any new account crops up.

Operating Profit for nine months in the current year is Rs. 902 cr compared to Rs. 913 cr last year for the corresponding period. There was slight dip due to non-availability of treasury profit as discussed during earlier concalls. There is a Rs.76 Cr dip in profit from domestic and forex treasury in nine months compared to corresponding period last year.

Net profit for nine months stands at Rs. 508 cr as compared to Rs. 440 cr for corresponding period last year showing 15% growth. It is achieved mainly due to reduction in total NPA provisions for 3 Quarters, for the current year which stands at Rs. 189 cr compared to Rs. 248 cr last year.

ROA for nine months stands at 1.65%, NIM at 4.32% and Cost to income ratio at 42.11%.

Our claim on Cyber Insurance for the last year Cyber attack got rejected and we have to take legal route. Nevertheless we have made full provisions for the losses incurred due to Cyber attack.

We have not restructured any asset during this quarter. As per recent RBI guidelines on restructuring issued on 01.01.2019, we have made policy. We don't have many requests as of now for restructuring.

You may remember in 2008, we had the highest restructured Assets in the industry but one of the lowest migrations from restructured category to NPA. When we receive requests from customers, will look into case by case and take calls based on regulatory provisions and will take holistic interest of all stake holders, particularly customers in deciding restructuring.

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

Thank you MD sir. I am Ramesh, CFO.

Good evening everybody and thank you for attending the City Union Bank's earnings call of Q3 FY19 / 9M FY19.

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

The Operating profit during the period remained almost flat as per our expectations and at the same time Net Profit has increased by 15% in both Q3 & 9M FY19. Also, pre-tax profit improved by 8% for Q3 FY19 and by 16% for 9M FY19.

The Net NPA remained at the same level at 1.74% as prevailed during last year. However, it has sequentially increased by 5 bps in Q3 FY19.

During the period, our Deposits has increased by Rs.4,165 cr from Rs. 31,339 cr to Rs.35,504 cr, registering a growth of 13% on y-o-y basis. Similarly, Advances improved by Rs.4,548 cr from Rs.26,089 cr to Rs.30,637 cr translating into a 17% growth. Thus, the total business grew by 15% on y-o-y basis.

CASA has recorded a growth of 21%, in absolute terms by Rs. 1,481 cr from Rs.6,989 cr to Rs.8,470 cr. The share of CASA to total deposits remains at 24% for Q3 FY19. CA portion increased by 12% and SA portion by 25% on y-o-y basis.

The Cost of Deposits for Q3 FY19 decreased by 7bps to 6.17% from 6.24% compared with Q3 FY18. Cost of Deposits for 9M FY19 was lower at 6.13% vs 6.32% in 9M FY18. We have been operating at a CD ratio of around 86% without increasing much deposits. As and when there will be credit growth we may go for more on deposits.

The yield on advances for Q3 FY19 stands reduced to 10.96% as compared to 11.37% for Q3 FY18. The yield on advances was at 10.89% for 9M FY19 vs 11.55% as compared to the same period during the last year. The decline in yield is on account of competition in the market. However, yield on advances stands marginally improved to 10.89% as compared to 10.86% during Q1 & Q2 FY 19.

The Net Interest Income for Q3 FY19 has improved by Rs. 53 cr from Rs. 365 cr in Q3 FY18 to Rs. 418 cr in Q3 FY19 registering a growth of 15%. NII for 9M FY19 improved by Rs. 129 cr from Rs. 1,062 cr in 9M FY18 to Rs. 1,191 cr in 9M FY19.

The Net Interest Margin for Q3 FY19 remained at 4.41% for Q3 FY19 & Q3 FY18. NIM for 9M FY19 was at 4.32% vs 4.45% in the corresponding period last year.

The non interest income of the bank in Q3 FY19 has marginally decreased to Rs. 120 cr as compared to Rs. 122 cr in the corresponding quarter on account of decline in profit on trading of

securities. The non interest income for the nine months period ended has declined by 11% from Rs.412 cr in 9M FY18 to Rs. 368 cr in 9M FY19.

The treasury profits comprising both domestic and forex segments decreased by 40% from Rs. 34 cr in Q3 FY18 to Rs. 21 cr during Q3 FY19. Suit recoveries remained flat during Q3 FY 18 & Q3 FY 19. Income from domestic and forex treasury decreased from Rs. 138 cr in 9M FY 18 to Rs. 61crs in 9M FY 19 mainly due to decline in treasury profit. This is as per our expectation, we shared during our earlier concalls.

Operating expenditure has increased by 21% in Q3 FY19 to Rs. 231 cr from Rs. 190 cr incurred in the corresponding quarter last year. For 9M FY19 Operating Expenses increased to Rs. 656 cr from Rs. 561 cr in 9M FY18. The employee cost increased from Rs. 80 cr to Rs. 93 cr on Q3 to Q3 basis and it increased from Rs. 239 cr in 9M FY18 to Rs. 273 cr in 9M FY19. The other operating expenses increased from Rs. 110 cr in Q3 FY18 to Rs. 138 cr in Q3 FY19. For 9M FY19 it was Rs. 383 cr vs Rs. 322 cr in 9M FY18. The increase is on account of general increase in Rent, Taxes (GST), Postage, Telephones etc.

Thus, Cost to income ratio increased to 42.96% for Q3 FY19 from 39.10% in Q3 FY18. For the 9M period ended FY19 the ratio is 42.11% as against 38.05% for 9M FY18. This was mainly on account of non availability of treasury income and reduction in other one time incomes like IT refund, PSLC income.

The operating profit for Q3 FY19 increased by 4% to Rs. 307 cr from Rs. 296 cr in Q3 FY18. For 9M FY19 the same has declined by 1% from Rs. 913 cr to Rs. 902 cr in the corresponding period last year.

For Q3 FY19, the total provisions made was Rs.129 cr a decrease of 9% compared to Rs.142 cr in Q3 FY18 on account of reduction in slippages. Provision for Bad and Doubtful debts slightly increased from Rs.75 cr to Rs.77 cr for Q3 FY19.

For the nine months ended 2019, the total provisions decreased by 17% to Rs.394 cr from Rs.474 cr in 9M FY18. The details of provision made during the quarter Q3 FY19 is as follows;

Rs. in Cr

Provision for NPA	77.00
Provision for Income Tax	50.00
Provision for Std Assets	3.00
Provision write back -	(4.00)
Provision towards Others	2.75
Total	128.75

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

Rs. in Cr

Provision for NPA	189.00
Provision for Income Tax	170.00
Provision towards depreciation in Investments (SRs)	16.00
Provision for std assets	6.20
Provision for inv shifting	6.51
Provision write back -	(4.00)
Provision - Others	10.76
Total	394.47

Thus, PAT for the third quarter thus increased by 15% from Rs. 155 cr in Q3 FY18 to Rs. 178 cr in Q3 FY19. For 9M FY19, PAT registered a growth of 15% from Rs. 440 cr during the corresponding last year same period to Rs. 508 cr.

Return on Assets stands at 1.68% for Q3 FY19 as against 1.64% for the corresponding quarter last year while the ROA for 9M FY19 stood at 1.65% vs 1.61% for the corresponding period last year. The Return on Equity stood at 15.61% for Q3 FY19 against 15.70% for Q3 FY18. Similarly for 9M FY19, ROE stands at 15.35% vs 15.47% in last year corresponding period.

The Capital Adequacy Ratio (as per Basel III) stands at 14.79% of which core CRAR at 14.39% for 9M FY19.

For Q3 FY19, the gross additions to NPA is Rs. 166 cr compared to Rs. 132 cr in Q3 FY18 and Rs. 136 cr in Q2 FY19. We have recovered a sum of Rs. 60 cr in NPA accounts during the third quarter. For 9M FY19, the total slippages stands at Rs. 428 cr as against Rs. 427 cr in corresponding period 9M FY18.

Accordingly, the Gross NPA for Q3 FY19 stood at Rs. 892 cr vs Rs. 860 cr Q3 FY18 and Gross NPA ratio decreased to 2.91% from 3.30% last year. The Net NPA stood at Rs. 528 cr which is 1.74% of Net Advances, same as that of corresponding quarter last year Q3 FY18. We have not sold any assets to ARCs during this quarter.

No account has been restructured during 9M FY19 and the restructured standard accounts as at 31st December, 2018 is NIL.

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

Thank you all! Over to questions:

Opening remarks

MD: We expected credit growth around 18-20%; slippages ratio to be restricted by 2.2% and operating profits will remain under pressure – all this was discussed at the start of the financial year. The Q3 results reflects the same. Cauvery issues and cyclone restricted us from achieving 18% of advances growth. Because of better NPA management and recoveries, gross NPAs were stable. Slippages ratio is 1.86% for 9M and for Q3 it is 2.16%. This was regarding the paper mill account which was discussed in 1Q/2Q concall.

CFO: The operating profit was flat and was in line with our expectations. The share of CASA remained stable on QoQ basis. The cost of deposits decreased by 7bps YoY in Q3 FY19.

Q&A session

Q: Amit [UTI MF]: North east monsoon has been lower, how has your agri portfolio behaved. Other personal loan has grown aggressively, any reasons?

A: Rainfall impact is different for different regions. Chennai did not had sufficient rainfall, Cauvery delta got affected by Gaja cyclone. Majority of our agri portfolio are gold loans and hence we don't see much impact. Clarity will emerge in May-Jun'19 to understand the real impact. But as of now we are not seeing any pressure. Other personal loans is ~3% of our loan portfolio and there has been no material change because of high growth in this segment.

Q: Kashyap [Emkay]: Any chance of revival of paper sector account. PSU Banks coming in; will they also lend? You also had education accounts under stress. Also, will the margins get compressed from the current levels?

A: We expect something to happen in FY20 but we are also not sure. Some capital might come in but there are discussions going on. The education account is problematic and our confidence is saying that it won't go into bad debt but we are putting close. The exposure has been reduced by Rs. 25cr from over Rs. 100cr. Hence, the account should be around Rs. 80-90cr. With regards to margins, we are on the right track but still we are not fully convinced that we will be able to pass on the entire increase in borrowing cost. There can be margin compression and we have to take this as a pinch of salt.

Q: Renish [I-Sec]: Can you explain the accounting of cyber fraud and probability of getting this back? Also on margins, how much we can pass on the increase in borrowing cost?

A: We have made provision for the entire amount. Two items – first being ATM (Rs. 32cr) and SWIFT (Rs.12cr). For cyber attack in ATM switch an amount of Rs.17cr was provided for in last year and for the balance of Rs.15cr provision was made in Q2FY19. For cyber attack in the Bank's swift system, out of Rs. 12 crore the Bank has recovered Rs. 3 cr and provision was made to the tune of Rs. 6.7 cr in Q4 FY 18 and Rs. 2.3 cr was provided in Q3 FY 19 respectively. The Insurance Companies rejected our claim for the cyber attack stating that the Bank has insured for the third party loss and the money lost is first party and hence there is a dispute. We are arguing that the ATM loss was from third party bank (fighting for Rs. 25cr). We don't know when this will get resolved. On margins, we are beyond our sustainable range and we will continue to push till the system is absorbing. Hence, even we don't know till when this margins will sustain.

Pranav [Birla Sun Life]: How much is the competitive easing?

A: We are measuring the passing of Cost of Borrowing on how much our customer can absorb. We think we are closer to the peak interest rate.

Q: Neera [Nepean Capital] Guidance on GNPA's?

A: We are able to see some betterment in the collection process. GNPA's can reduce from current levels if things are fine and god is willing. In the last ten years, up to FY13 – 1.5% of

slippages was there, post that, the slippage ratio spiked up. This was an environment where everyone saw increase in the NPAs. Recoveries from liquidation is also improving and hence we can expect NPAs to improve from here on.

Param [JM Financial]: Margins have increased QoQ. Any reasons?

A: We are currently operating at 86% of the CD ratio and there is also a difference between average and terminal figure for the year end. Hence, this is mathematical and nothing else.

Rohan [investor]: Guidance of growth given PSUs and NBFCs facing issues. Also if you can tell us more about branch expansion. Are you seeing good opportunities coming to you?

A: We don't decide our target of growth rate based on competition. We grow in line with our risk appetite. We will be growing between 18-20%. 1-2bps up/down can happen but we will not dilute underwriting sectors. The type of proposals what NBFCs were choosing loan customers were different from what we are doing. We are not aggressive in LAP or segments in which NBFC concentrate. We focus more on projected cash flows and these segments do not coincides with NBFCs. However, PSUs and private sector banks changes our competitive landscape. We would not like to grow much faster than the system, and we give more importance to returns and profitability than growth.

Rohan [Equirious]: What is provisions in paper account? In the other operating expenses, there was 8% QoQ jump.

A: We make 15% of PCR when the account is slipped. We are providing chip based debit card to our customers which has increased the operating expenses. There are many such small things.

Abhishek [IIFL]: In the infra sector, there was Rs. 92cr increase in the o/s balance. We had been cautious growing this sector, has there been any change in the outlook?

A: It is basically 2-3 solar related exposure for captive usage given to our existing customers. Hence, there is no change in our approach towards infra projects.

Jai [B&K]: If we exclude technical write-offs, PCR is lower at 40%. How we see this PCR ratio and what is the LGD?

A: We measure the PCR including the technical write-offs and expected to be around 60- 65%%. We looked into the last three years of recovery in this portfolio. The haircut in this portfolio level is generally at 15-20%. There will be a delay in the recovery but the haircut made is not material.

Darpin Shah [HDFC securities]: How well is the bank positioned in realization of the collaterals . What is SMA-2 account?

A: We are getting some positive feeling. We are seeing support from the government and seeing some steady improvement in this particular area. We had Rs. 205 cr of recovery and upgradation. No addition to the SR portfolio during this quarter.

Gaurav Jani [Centrum]: Savings rate and any guidance on CASA ratio?

A: We have booked a profit of Rs. 3.63 cr by selling Priority Sector Lending Security Certificate during this quarter. We are offering 4% interest rate for Saving Bank account. We are not strong in the salaried market and most of our customers are self-employed [aam aadmi]. We are not facing any resistance for not giving extra interest rate. CASA is expected to remain in the prevailing range.

Rohan [Equirius]: Incremental yields from TN and non-TN portfolio?

A: It won't be different.

Abhijit [Geojit]: What is agri-gold portfolio?

A: It is Rs. 2746 cr.

Rakesh [Elara]: Growth has been impressive. How do we see our future? Cost income ratio, how will it move?

A: Do not expect too much! Since we don't have other income, cost to income ratio will remain elevated. Once, other income increases, cost to income ratio will decrease.