CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – MARCH 2019

Dear Investors and analysts,

Hearty welcome to the Conference call on annual financial results FY 2018-19 / Q4 FY 19 of City Union Bank. The Board of Directors approved the Audited results today.

I will first brief the year results and our CFO Shri. Ramesh will share with you the numbers. Hope you all have received the presentation.

On the management side, Sri. S. Mahalingam, Part-time Non-executive Chairman completed his term on 03.05.2019 as per the approval given by RBI and one of the Director Prof. V Kamakoti retired on 26.04.2019 after completing his full tenure of 8 years. We place our sincere gratitude for Mr. Mahalingam and Prof. Kamakoti for their able guidance provided during their tenure.

We have received the RBI approval for Sri. R. Mohan, next senior Board member as Part time Non-executive Chairman of the Bank for the next 3 years effective from 04.05.2019. As you all know, Sri. Mohan. R, joined the Bank as unpaid apprentice in 1975, worked in various cadres and retired as Chief General Manager in May 2014. He was inducted as Director to the Board in June 2014 and is in association with the bank for more than 40 years.

The Nomination Committee held on 03.05.2019 has inducted Sri. K. Vaidyanathan into the Board. Shri. K Vaidyanathan is a Fellow member of the Institute of Cost Management Accountants of India and also the Institute of Company Secretaries of India. He has over 40 years of rich domain experience.

Coming to the financials of FY 2019, we once again recap the expectation shared with you for FY 2018-19 that - Operating profit to be flat and we make our best efforts to achieve

i) 18% - 20% of credit growth
ii) Slippage ratio between 1.75% and 2%.
iii) ROA will be around 1.50% - 1.60% and ROE around 15%+
iv) Cost to Income ratio will be at the elevated level as other income like treasury income may not be available this year and we are expecting in the range of 42% - 44%.
v) NPA management and improving NPA recoveries

Against these expectations, we closed FY 18-19 with 17% growth in Business, with same level of growth in Advances & Deposits.

When we started FY 2018-19, we expected better pick up of general economic environment by second half. But in realty things are not yet rosy. Things are not too bad either. We are keeping the fingers crossed and waiting for 'good times'.

We sold excess Micro Enterprises portfolio of Rs. 700 crs through participation certificate and brought equal amount of (Retail-Vehicle) making 'Nil' effect in balance sheet figure for a short term period of 91 days. This resulted in decline in MSME sector exposure and increase in others category to an amount of ` 700 crs. If we have not consider this effect, composition remains by and large same.

Further, as said in our earlier concalls we do not have any exposure to ILFS in any form or companies now in news for wrong reasons.

Our slippage ratio to closing advances for FY 2019 was 1.91% and RoA, ROE and Cost to Income stands at 1.64%, 15%+ and 41.67%. All parameters are closer to the expectations we shared with you during the beginning of FY 2018-19.

We could see some momentum in recovery during the year and the actual recovery of NPA (Live + TW a/c) for FY 18-19 was totaling to Rs.338 cr comprising Rs.248 cr from live accounts and Rs.90 cr of technically written off accounts while the actual recovery for FY 17-18 was totaling to Rs.276 cr comprising Rs.205 cr from live accounts and Rs.71 cr technically written off accounts.

Lot of questions were asked on our stand on RBI circular on SME restructuring. As you all know we had the highest proportion of restructured assets up to 10% in 2008-09 when we gave benefit to all eligible borrowers. Yet we had lowest migration to NPA in the following two years.

We had informed all eligible borrowers about new RBI circular and we have to give restructuring if they ask for. There are around 18 MSME borrowers account has been restructured during Q4 FY 19 amounting to Rs.34.98 cr. Many borrowers felt this could work adversely when they go for any expansion in future. Any way the scheme is open up to March 2020. Also an amount of Rs.21.13 has been restructured under GAJA Cyclone Relief which hit Tamil Nadu during Q3 FY 19.

The total tax provision for FY 2018-19 was ` 242 crs making it 26% of PBT vis a vis 25% for FY 2017-18. For Q4 FY 2019 tax provision is at 29% of PBT.

You all know that during Feb 06, 2018 we had a cyber attack on our SWIFT system. Based on the above, we had initiated necessary modifications in our system in addition to initiating steps to recover the lost money. In the mean time on 20.02.2018 RBI issued circular for implementation of certain operational controls. Though we have initiated necessary action as said out in the circular, due to set back by the cyber attack happened on 6th Feb 2018 and also structural changes brought in at our IBD took time, there was a slight delay in implementing few controls for which a penalty of 3 crs was levied by RBI in the month of March 2019. Further, the Insurance company rejected our claim and we have provided in full for the loss because of the cyber attack. We are contemplating going for arbitration.

We have opened 50 branches/outlets during the year and taking the total branches network/outlets to 650 and our 650th branch was opened at "Keezhakorkai" near Kumbakonam. Of the branches opened during FY 18-19, 10 were banking outlets operated by Business Correspondents.

We do not have the requirement of reporting divergence for FY 2019 as per the report given by RBI which was well within the threshold limits.

We had SRs to the tune of Rs. 374 Crs of which top 4 assets contributed 90%. Two of the top 4 were resolved and repayments started coming. We had redemption of Rs.49 cr worth SRs in the last years. The largest one got resolution last week and repayments will start from 3rd quarter and will end by year end.

We normally have flat growth in Q1 and net NPA may inch up by 4-5 bps but % of net NPA we expect to start falling towards the second half.

We had one Educational institution with over Rs. 50 crs exposure which come to stressed category last year. They repaid partly by sale of assets and got out of the list. Many private educational institutions have receivables from Govt. for reimbursement of tuition fees for reserved category students. TN Govt. is clearing reimbursement only for half the fees corresponding to educational year 2017-18 which is creating stress in operations. If Govt. releases as promised the tuition fee reimbursement for year 2017-18 (half) & 2018-19 that a/c will survive else it could slip into NPA. All inclusive we expect for current financial year also the slippage ratio to closing advances will be between 1.75% to 2% for FY 19-20.

The Board has recommended a cash dividend of 50% (50 paise per share) to shareholders.

To sum up,

FY 18-19 had been a decent year. We expect that for FY 19-20, we make our best efforts to achieve

vi) 18% - 20% of credit growth
vii) Slippage ratio between 1.75% to 2%.
viii) ROA will be same at 1.50 – 1.60% and ROE around 15%+
ix) Cost to Income ratio will be in the range of 42%

We will strive to protect profitability growth by proper focus on NPA management by reducing slippage and improve recovery of NPAs by liquidation of collaterals.

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 Q4 FY 19 and for FY 2018-19.

Our Board has adopted the Audited Financial Results for FY 2019 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 and Yearly results:

The Bank has shown a growth of 15% in Operating profit in Q4 FY 2019 over the corresponding period and for the FY 2018-19 the growth was just 3% due to absence of Treasury Profit.

The Net Profit for Q4 FY 19 & FY 2019 has enhanced by 15% as compared to corresponding period of last year.

The Net NPA has increased by 7 bps sequentially to 1.81% for Q4 FY 19 from 1.74% in Q3 FY 2019.

Coming to the Business growth, our Deposits has increased by Rs.5595 cr from Rs.32853 cr to Rs.38448 cr in FY 2019 thereby registering a growth of 17%.

Similarly, Advances increased by Rs.4826 cr from Rs.28239 cr to Rs.33065 cr translating into 17% growth. Thus the total business grew by 17% to Rs.71513 Cr for FY 2019 from Rs.61091 Cr last year.

CASA has increased by 22% by Rs.1741 cr from Rs.7957 cr to Rs.9698 cr. The share of CASA in total deposits was 25%. While CA increased by 15%, SA improved by 25%.

The Cost of Deposits for FY 19 decreased by 12 bps to 6.17% from 6.29% compared with last year. Cost of Deposits for Q4 FY 19 was 6.27% Vs 6.22% in Q4 last year.

The yield on advances for FY 19 stood at 10.95% as compared with 11.46% in FY 18 due to competition prevailing in the market. For Q4 FY 19 the same has been stood at 11.07% vs 11.19%. The interest yield on Investments has remained flat at 6.95% in both FY 19 & FY 18.

The Net Interest Income for Q4 FY 19 stood at Rs.421 cr as against Rs.368 cr in the corresponding period thereby registering a growth of 14%. The NII for the whole FY 19 grew by 13% from Rs.1430 cr to Rs.1611 cr. The Net Interest Margin for Q4 FY 19 stood at 4.40% vis-à-vis 4.36% in Q4 FY 18 and for the whole FY 2019 NIM stood at 4.32% as compared to 4.42% for FY2018.

The other income of the bank in Q4 FY 19 increased by Rs. 27 crs to Rs.147 cr as compared to Rs.120 cr mainly on account of recovery from TW accounts and few charges. However, for the whole year the same has declined by 3% to Rs.514 cr Vs Rs.532 cr last year. This was on account of decrease in income due to treasury which was to some extent compensated by recovery from TW accounts.

Operating expenditure has increased by 19% in Q4 FY 19 from Rs.193 cr to Rs.230 cr and whereas for the whole year it rose from Rs.755 cr to Rs.886 cr registering an increase of 17%. The increase was on account of normal increase in expenses like Rent, Electricity etc.,. The telephone expenses increase was attributed to upgradation of lines for networking.

Thus, the Bank has recorded a growth of 15% in Operating profit in Q4 FY 2019 over the corresponding period of 2018. In absolute terms the Operating profit increased from Rs.294 cr to Rs.338 cr. The growth in Operating Profit for FY 19 was 3% higher from Rs.1208 cr to Rs.1240 cr. The operating profit to NII constitutes 77%.

For Q4 FY 2019, the total provisions have increased by 14% from Rs.142 cr to Rs.163 cr. The total provisions for FY 19 decreased by 10% from Rs.616 cr to Rs.557 cr on account of reduction in slippages and non requirement of additional SR provision.

We have provided Rs.72 cr towards taxation in Q4 FY 19 as against Rs.56 cr for the corresponding period on account of improved profit and for FY 2019 the same was Rs.242 cr as against Rs.198 cr last year. Tax provision to PBT in FY 19 was at 26% and for Q4 FY 19 it was 29%.

We have not availed the dispensation provided by RBI in spreading the provision for Mark to Market (MTM) losses on investments held in AFS and HFT category for any of the quarters till date. We have provided the same in the respective quarters.

The details of provision made during the quarter Q4 FY 19 is as follows;

Provision for NPA	81.00 cr
Provision for Income Tax	72.00 cr
Provision for standard assets	15.30 cr
Provision written back - FITL	-5.63 cr
Total	**162.67 cr**

The details of provision made for the FY 19 is as follows;

Provision for NPA	270.00 cr
Provision for Income Tax	242.00 cr
Provision for standard assets	21.50 cr

Provision towards depreciation in Inv incl SRs	16.00 cr
For investment shifting	6.51 cr
Provision for others	10.76 cr
All other provisions – written back – FITL & Restructure	-9.63 cr
Total	**557.14 cr**

The Net Profit for the fourth quarter thus has increased by 15% from Rs. 152 cr to Rs. 175 cr. For FY 2019 the same has increased by 15% to Rs.683 cr from Rs.592 cr last year.

Return on Assets for the year ended FY 19 stands higher at 1.64% Vs 1.60% in FY 18 and for Q4 FY 19 the same was 1.63% vs 1.58% last year. The Return on equity marginally decreased at 15.25% for FY 2019 as against 15.37% for FY2018 and 15.06% for Q4 FY 19 vis 15.16% for Q4 FY18.

Cost to income ratio stands increased to 41.67% for FY 19 from 38.46% in FY 18 on account of non availability treasury income and other one time income. Similarly the cost to income ratio stood at 40.48% for Q4 FY 19 as against 39.67% last year Q4 FY 18.

The Gross NPA ratio for Q4 FY 2019 decreased from 3.03% in FY 18 to 2.95% in FY 19. Net NPA to Net advances slightly increased to 1.81% in FY 19 from 1.70% in March 2018.

During the period, based on RBI guidelines and affected borrowers due to 'Gaja cyclone' we have restructured 97 accounts amounting to ` 56.11 crs. The outstanding restructured assets to Gross advances stood at 0.17% Vs 0.03% in the corresponding period last year. During the year we have not sold any assets to ARCs.

With this I conclude and over to you for questions.

Thank you all!

Questions & Answers:

Q - Why were the Write-offs elevated in 4QFY19? What led to the increase in CASA deposits and what led to write offs and tax rate difference. - Laxmi Narayan, Catraman

A – These are technical write offs and are done primarily to avail tax benefits. The CASA growth is not a one-off, we are working towards it, however we will have to reach a 30% CASA ratio mark before we can come up and talk about strategies. The tax rate is usually between 25-26%. Safe to assume that to remain broadly stable on a full year basis with some quarterly aberrations.

Q - Are you able to pass on cost of funds to customers in MSME? What saw SA accretion in 4Q? What is the total exposure to educational institute? - Pranav Gupta. Birla Sunlife insurance

It is premature to answer this. We thought that the PSU banks out of PCA will create some pressure on margins, so far it has not played out, as against my own expectations. It is safe to assume some margin contraction due to change in industry dynamics in the near term. We are doing some things on SA front, but not disclosing it till the time we get complete grip on CASA (i.e. till the time we reach 30% CASA ratio). We do not have anything to suggest any incremental problem in educational institutions. If the government of TN defaults, there is nothing we can do.

Q – Slippages were Rs200cr in 4Q. This was at elevated levels since last many quarters. Why the sharp increase in provision on standard assets? This quarter there was growth in corporate loans and not MSME. Are the ticket sizes the same in business LAP like normal LAP? Rinish Bhuva, ICICI Securities

A – We gave the slippage guidance 1.75%-2% and it came in between the guidance. For FY20E, we expect the slippage to remain in the same band. Not seeing anything concerning, not seeing any good times ahead either. Hence we see the slippage to remain at these levels. There were deviation in growth rates as there was change in classification of loans as per the auditor. The ticket size of loans will be same and the whole strategy would be the some, it is a mere change in classification?

Q – There was a 26% QoQ growth in CRE. Small builders, large builders, geography? Not less than 75% agri is securitized by gold. What is the RWA? – Ashish Chaudhary – Centrum Broking

A – About Rs200-300cr were reclassified in CRE. These are typical business loans given with LAP as the security. This is a safe with 75% of the portfolio securitized by gold. Rs 31400 cr is the RWA.

Q- What is the written off pool? How much recovery are we expecting? Calculated coverage is 40%, do we plan to shore it up? Any SMA-2 trends? Darpin Shah, HDFC Securities

A – The total amount under collection would be Rs 600 cr. About 40-50% may be recovered. In PCR< we aim for 60% including TWO. Currently we are at 63%. There is no need to get into SMA-2 numbers. We have guided for 1.75%-2% slippage in FY20E.

Q – Any exposure to educational institutions? No large accounts? All slippage from SME? Any colour on real estate exposure? – Anand Dama, Emkay

A – Let us divide into 2 parts. Irrigation loans and educational loans. On institutional loans, industry NPA is ~30%. We have exposure of Rs180cr, we have Rs30-40cr as NPA already. If government defaults, we can have NPA like situation. Major slippages are granular, one large educational institution in Kerala. The classification to real estate was changed. This portfolio is stable and has not seen any major change over the last few quarters.

Q – There was pressure on yields as the yield on advances compressed by 50bps over the last few quarters. What is the guidance on yield on advances? The impact on NIM was not much as the investment portfolio did not grow in FY19 which may not be available in FY20. What is the status of PSL – Rohan Mandora, Equirus Securities

A – We were expecting margin compression in the last 5-6 quarters. We have seen NBFCs going out, PSU banks came in but still not affected margins. Do not have any guidance on the yield. We sold and bought Rs7bn in PSL. We earned income of Rs35mn in commission during FY19.