"City Union Bank Limited
4QFY26 Earnings Conference Call"
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MODERATOR: **MR. JIGNESH SHIAL – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the City Union Bank Limited 4QFY26 Earnings Conference Call hosted by Ambit Capital. 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 this conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jignesh Shial from Ambit Capital. Thank you and over to you, sir.

Jignesh Shial: Yes, thank you, Dorwin, and good evening, everyone. On behalf of Ambit Capital, I would like to thank the management of City Union Bank for allowing us the opportunity to host 4QFY26 earnings call. We have along with us Dr. N. Kamakodi, MD and CEO; Mr. R. Vijay Anandh, Executive Director; Mr. V. Ramesh, Executive Director; and Mr. J. Sadagopan, CFO. I will now hand over the call to Dr. N. Kamakodi, MD and CEO of City Union Bank for his opening remarks. Over to you, sir.

N. Kamakodi: A hearty welcome to all of you for this investor call to discuss the audited results of the fourth quarter and the financial year ending 31st March 2026. I hope all of you have received the results and the presentation. As you all know, it has been 15 years since I was appointed as the MD and CEO of this prestigious institution with over 120 years of legacy. As you all know, as per the regulation in force, I am completing the maximum permissible tenure of 15 years on 30th April 2026, and I have to hand over the responsibilities of this great organization to my successor.

Hence, with this investor call, I am signing off and passing on the reign to my successor, Shri R. Vijay Anandh, who will take charge with effect from 1st May 2026. This con call is my 60th call to the investor community and I am happy to see and interact with some of them since my first con call. Thanks to all of you and special thanks particularly to those with whom we have been traveling over 15 years.

At this juncture, when I look back on my long journey spanning over one and a half decades, I can relish many moments that kindle my joy and satisfaction. If I look back at the performance of the bank during my stint as the MD and CEO, I have done my best and feel satisfied with the level of progress the bank has achieved during this tenure. Of course, many more things could have been done, but whatever that has happened in 15 years is really satisfying. And I would like to summarize few like say points before I get into the progress of financial year 2026.

During this 15-year tenure, the bank has achieved many milestones. If you look into the paid-up capital between 2011 and 2026, increased from INR41 crores to INR74 crores, about just under two times growth, which we have achieved without diluting the capital, like say without burning the capital, without much increase in the overall paid-up capital we have done that.

And we have seen the deposit during the 15 years increasing by six times, advances increasing by seven times, total business increasing by about seven times, net profit increasing by about six times, the number of branches increasing by four times, the total number of staff members increasing by three times, market capitalization increasing from INR1,815 crores to INR19,450 crores, which is about 11 times or CAGR of 17% in this 15 years. And the net worth of the bank increased from INR1,007 crores to INR10,459 crores, which is almost 10 times increase with a CAGR of 17% during this period.

I take this opportunity to offer my sincere thanks to various stakeholders, be it shareholders, customers, employees, regulators, and everyone who supported the bank and stood with us in this journey, which has happened during these 15 years. I also request you to offer this unwavering support to my successor, Shri Vijay Anandh, whom I am sure will take the bank to newer heights with your blessings and support, and I wish him good luck.

Being the last quarter, since I am not going to get this opportunity again, I will go through the numbers and I will hand over the mic to my successor for sharing the outlook of financial year 2027 and beyond, and I will be discussing with you the progress which happened during the last year.

During this fourth quarter, two of our Independent Directors of the board, Shri V. N. Shivashankar and Dr. Sridhar IAS, retired and demitted their office on close of business hours of 6th February after completion of 8 years tenure. On the board meeting held on 2nd February 2026, Board of Directors had approved the co-option of Shri K. Subramaniam as Additional Director of the board in the capacity of the Independent Director, who is a chartered accountant and seasoned IT executive with expertise in various fields like information technology, including artificial intelligence, risk management and all.

And shareholders have already given their approval for his appointment through the postal ballot. In the board meeting held today, board had inducted Shri R. Mohan as Additional Director. He is a known face and he had served the board as the Non-Executive Chairman earlier. They will be strengthening the board to take it to the greater heights.

If we look into the earlier con calls, we had shared with you our expectations for the current financial year, that is financial year 2025-26 as follows.

Like we said, we will end up with high teen growth for the financial year 2026, which will be over and above the industry level growth. And focus will continue in the areas of core MSME, gold loans, and secured retail.

And we said our growth of deposits will be aligned with the credit growth, with a focus on CASA and granular term deposits.

And we said the effect of the CRR cut will have some positive bias in the fourth quarter, along with NIM levels holding up.

We also said the ROA is expected to be around the same level of 1.5 % what we were having during the first three quarters. And our cost-to-income ratio will be in the range of about 48 to 50 % and all.

We also shared that our slippage for the whole year will be about INR700 to INR750 crores, compared to about INR800 crores plus during the financial year 2025.

By and large, almost all the expectations whatever we shared with you in the earlier con-calls for the financial year 2026 were met in the same spirit whatever we had shared with you.

During the fourth quarter and year ended 31st March 2026, we registered the highest business growth in recent years, with the growth level achieving about 24% in the total business in the year-on-year. After the financial year 2013, this is the highest business growth rate whatever we had done.

In between, we had moderated the growth in a steady fashion, which helped us to cross through so many currents that were in the banking industry in the last 15 years by not participating in the corporate advances, unsecured retail, and all. In fact, one of the reasons we feel satisfied with the way progress has been made in the last 15 years is not because I did something great, or I did something innovative, or I did something new.

It is more because we had successfully avoided many pitfalls, be it the corporate consortiums or infrastructure lending or unsecured retail and all, which had in fact dented the asset quality of the entire banking system. And most of the banks got affected. And we were among very few banks which stayed clear of those risky sectors and were not affected because of the many cyclones that were happening in the industry.

And we were fortunate to go through that. And the growth is also continuing in the same areas and composition, be it gold loan, particularly focusing on the agricultural gold loan. And also, through the secured retail or secured MSME, and all. We have not yet as decided we have not ventured into risky areas with lot of fluctuations and all.

So, we were able to achieve this 24-% growth, whatever we had achieved last year. Purely through -- just focusing on the areas which we had done in the past, staying clear of any pitfalls. That's one satisfying thing which had come. In fact, the secured MSME or secured retail like housing loans, loans against properties, and all, the verticals which we had created.

In fact, the capacity was increased, helped by the Newgen and other LOS software, the process set. And perhaps giving the feeling that the best of CUB is yet to come. And probably we will be having many more milestones in the years to come under the leadership of my successor.

So, we had registered about 26 % advance growth for the Q4 financial year '26. And it increased to INR66,698 crores from INR53,066 crores in the same period last year. As explained earlier, this is the highest credit growth for our bank. We achieved this 25 % plus growth rate after almost 13 years. As we said in our last few con-calls, the growth is consistent starting from the Q1.

And we had achieved double-digit and in fact the Q1 financial year '25. And we have achieved growth double-digit over the last eight quarters up to the Q4 financial year '26. In Q1 alone, our advances had grown by over INR5,800 crores. For the full financial year, the incremental credit growth is INR13,600 crores.

As given earlier, our focus will be on core MSME, gold loan, and secured retail. And we will continue with the targeted growth of mid-teen to high-teen with about 2 to 3 percent over and above the systemic growth rate, as we had been consistently communicating to all of you.

On deposit front also, deposit growth matched with that of the credit growth. Our deposits had grown by 23% and stood at INR78,308 crores for Q4 financial year '26 as compared to INR63,526 crores in Q4 in the financial year '25. In fact, if you had observed the growth had been granular and through both the CASA and retail term deposit. We had in fact retired some of the certificate of deposits in the fourth quarter getting substituted by the retail term deposit.

Our average CD ratio for the financial year '26 stood at 85 %. The CASA % to the total deposit stood at 28 %. And it is the CASA growth is also matching with that of the growth. And in fact, in by average CASA growth is also very much favourable giving us the confidence that we can increase the growth by few % point more than what we had envisaged during the earlier period.

On asset quality front also, supported us which actually helped us to with confidence maybe go for some incremental higher growth rate compared to whatever we had communicated to you all in the earlier con-calls. On asset quality front, the recovery is more than the slippage in the current quarter as well, which is the trend we have been seeing for the last several quarters.

For fourth quarter financial year '26, the total slippage is INR199 crores. And while the total recoveries are INR231 crores, consisting of INR153 crores from live NPA accounts and INR78 crores from the technically written-off accounts, resulting in reduced NPA figures.

Our gross NPA % had reduced to 1.91 % from 2.17 % in the Q3 financial year '26. The gross NPA has come below 2 % mark after 11 years. It was 1.86 % for the financial year 2015. And it has come to 1.91 % in the financial year '26. Both gross NPA and net NPA, both in % terms and absolute terms, is reducing every quarter for the last three years on a continuous basis.

When compared to the Q4 financial year '25, the gross NPA had reduced from 3.09 %, which is about 118 basis point reduction. Similarly, net NPA % decreased to 0.68 %, compared to 1.25 % resulting in 57 basis point on year-on-year basis.

Our last con-call we had stated that our overall SMA including our SMA 0, SMA 1, SMA 2 put together are in decreasing trend for the past few quarters. And total SMA numbers for the Q4 financial year '26 stood at 2.47 % compared to

3.68 % in Q3 financial year '26 and 5.60 % in Q2 financial year '26. Showing a sequential improvement and that improvement is also quite substantial.

And overall SMA 2 % to total advances had stood at 0.72 % for Q4 financial '26 compared to 0.95 % in the Q3 financial year '26, 1.34 % in Q2 financial year '26, and 1.59 % in Q1. In other words, in Q1 it was 1.59 % in Q2 it was 1.34 %, in Q3 it was 0.95 %. And currently in it is you are seeing it at 0.72 % and showing a sequential increase for the last four quarters.

So, we are seeing this improved asset quality cycle. And perhaps I can even say this is perhaps the best asset quality point in terms of both SME portion also in my last 22 years of stint in the bank. We are yet to see any impact of U.S. Iran conflict and things like that. We are keeping the fingers cross and closely monitoring the situation. So far, it has not started to reflect on the asset quality front in our portfolio.

And in fact, it is showing continuous improvement even after the onset of the conflict is giving us confidence. Anyway, we are keeping the fingers crossed and monitoring the situation closely.

For the Q4 financial year '26, provision coverage ratio with technical write-offs stood at 84 %, which improved from 78 % during the corresponding period last year. As we said in our last con-call, we are improving our provision coverage ratio without the technical write-off every quarter, starting with Q1 financial year '25, to bring it closer to the industry level. For the current quarter, PCR without a technical write-off improved to 65 % compared to 60 % during the corresponding period last financial year.

Our interest income has also grown by 21 % in Q4 financial year '26. And improved to INR1,856 crores from INR1,533 crores in Q4 financial year '25. For the full year ended the financial year '26, Our interest income improved to INR6,870 crores, as compared to INR5,834 crores, that is 18 % growth for the corresponding figure last year.

On yield front, our yield on advances stood at 9.80 % in Q4 financial year '26 as compared to 9.73 % in Q3 financial year '26, showing a marginal improvement by 7 basis point. For financial year '26, the same was 9.75 % against 9.79 % in the financial year '25.

On the cost side, the cost of deposits stood at 5.60 % for the current year compared to 5.57 % for the Q3. As a result, our net interest margin stood at

3.87 % in Q4 compared to 3.89 % in Q3. The almost -- hardly about 2 basis point plus or minus and within the narrow band, which we said last year -- during the earlier con-call.

For the year ended 31st March 2026, the net interest margin is 3.74 %, which is 14 basis points more than the 3.60 % whatever we reported in the financial year 2025. We expect the stable net interest margin for the current financial year '27 with almost in the same narrow band of maybe 5 to 10 basis points this way or that way, but we hope to maintain that.

And what we have to now understand is that because of the changes in the calculations of the LCR, we are getting a lot of elbow room even having slightly increased credit deposit ratio which will be having some positive contribution to the overall margin. Whatever potential increase in the cost or reduction in the yield, which may result because of the changes in economic condition, because of the U.S. Iran conflict, or whatever it is, some amount of elbow room is available there in managing that.

The total other income for the financial year '26 increased by 16 % to INR1,039 crores from INR898 crores in the financial year '25. With a limited opportunity in the treasury profit, it has happened because of the compensating contribution through the other means like the insurance commission, processing charges, and other fee income. So, our operating profit had grown by about 20 % in financial year '26 and increased to INR2,014 crores compared to INR1,679 crores in financial year '25, which is aligned with the business growth.

The PAT growth in the current quarter is INR360 crores with 25 % growth compared to INR288 crores in the fourth quarter last financial year. Our current quarter PAT is the highest so far in a single quarter. If we look back a decade ago in financial year '14, the annual PAT was INR347 crores and the current PAT is more than that, let’s say, just happened over a period of time. For the year ended financial year '26, we had INR1,326 crores against INR1,124 crores last year, showing an 18-% improvement in the profit after tax on year-on-year basis.

Our cost-to-income ratio for the fourth quarter improved to 46.15 % compared to 48.56 % in the Q3 and 49.16 % in the Q2 last year, showing about couple of basis point decrease. For the year ended financial year '26, the cost-to-income ratio is 47.93 %, which is in line with our guidance of 48 % to 50 % for the year as a whole.

Our return on assets for the Q4 financial year '26 for the full year is '26 is at 1.56 %, which is on at par with our long-term average growth over the 15-year tenure. If you had a chance to look into the consistency number over the last 15 years, except during the 3 years of COVID for financial year '20, '21, and '22, we had always been, about 1.45 plus almost in all quarters, at least about 12 -- 10 quarters or so it is above 1.50 % is what we had demonstrated over the period of time. For your reference, the summary numbers are given to just give you a look.

So overall, the 15 years had been rewarding and to greater extent satisfying though there were things could have been better. But the challenge had been to ensure that we don't get into any pitfalls and we had to greater extent navigated through multiple cycles, be it the 2008 global financial crisis I was the Executive Director, I was part of the system. Then we had the AQRs, the gold price crash of 2014, demonetization, and the introduction of the GST. So, these things were affecting the core sector of MSME, which we were supporting, but we could manage that. But COVID was something that was unexpected, so during that period we had to do that. The digital transformation that had happened had started giving results. So far so good.

So, we have to thank you all in person. In fact, I am coming to Bombay, and we have arranged for Thanksgiving dinner tomorrow, preceded by the analyst meet, when I will be meeting all of you in person. I extend my hearty invitation to all of you to join in person tomorrow for the con call by 5:30 at the Grand Hyatt BKC. It will be followed by a get-together and dinner. Looking forward to meet you all.

Before we get into the question-and-answer session, I request our ED, MD and CEO designate R. Vijay Anandh to share his expectations for the financial year '26-'27, we will get into the question-and-answer session.

R. Vijay Anandh: Thank you, sir. Am I audible, sir? Thank you.

N. Kamakodi: Yes, sir, perfect.

R. Vijay Anandh: So, in terms of vision for '26-'27, with respect to advances, we should be 2% to 3% over and above the credit growth of the industry. However, our focus on MSME will remain same. Gold loans and secured retail will be an additional enhancer. MSME proportion will continue to dominate with 55%, 60%, followed by JL with 30% to 35%, and remaining we are planning to do this through secured retail.

We will focus more on branch-led business now that we have 1,000 distribution branch channels. Our business through third-party on an overall bank book we envisage to be only between 1% to 2%. Hence our focus on secured products will continue for the year. Our endeavour on the CDR continues to be 85% to 87% based on the credit growth.

We are launching a segment-specific product for women and senior citizens, and we are also enhancing the product proposition in savings and current accounts. With respect to fee income to other income, we will be in the range of 55% to 60% as like last year, contribution of fee income to other income.

The only thing we see here is that we normally open the branches only in the third and fourth quarters of every year. In the first month, we have opened 70 branches. We expect an elevated operating expenses for the current year in the range of 15% to 18% over the last year. This is about what we have planned for the year, sir.

N. Kamakodi: Yes, I forgot to add this point of opening our 1,000th branch. I am happy to announce that today morning we completed the opening of the 1,000th branch near our headquarters, Kumbakonam. So, we wanted to achieve this milestone before I lay down my office. So, what we have done is that every year we open about 75 branches and last year also we opened 75, we closed the year with about 950.

So, for the 75 branches, the first of branches about 50 branches we opened in the first month itself, in the April itself. So, the remaining 25 will get opened towards the year end. So the point is that, like the same pace of 75 branches is what we expected to grow and as Vijay Anandh said, normally like we will have branches getting opened in the fourth quarter and they used to majority of them coming close to breakeven in the first year and some of them slipping into the second year.

So, there will be some changes in that thing, but overall level at a macro level, they are going to add for our increased distribution capacity, which I forgot to tell. So, with this probably we can get into Q&A. Like for futuristic questions, Vijay Anandh will answer, and for the present and past I would like to answer to that extent possible. And if I am not able to do justice, Vijay Anandh will step in.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Yes, hi, good evening, sir, and thanks for the opportunity. And many congratulations on a meaningful career at City Union Bank, driving the bank to a very impressive height, and creating shareholder value. Sir, my first question is regarding gold loan. So far, the gold loans have grown at a much faster pace than overall loans, and I believe this is not an asset quality issue at all.

But I just wanted to understand the risk practices here in the sense that, let's say, in January, February, from the peak of gold loan prices, gold prices have come down by 10% to 15%. So how do we manage the risk management for those portfolios that have originated at let us say INR165K of a 10-gram gold loan? So, if the loan—gold loan — was originated at INR165, it has come down by 10% to 15%. While at the portfolio level the LTV is very respectable, very manageable, how do you manage the risk in that portfolio?

N. Kamakodi: See, thankfully, we had the experience of 2014 when you had a similar gold price crash, which gave us some sleepless nights, but ultimately we ended up in not missing much but about had to book a loss of about INR5 crores or something like that only, but we had to go through a painful process of auctioning and things like that.

So, keeping all those things into account, when they say the gold price crossed beyond say INR12,000 and things like that, we did not increase the per gram rate beyond that. So, when it went to that INR15,000, INR16,000 and all, we had continued to give at the range of around INR10,000 per gram, or not, we had never crossed INR10,300 or something like that.

So, we have sufficient cushion built into gold loans that were issued when the share price was at that level. As we had a higher margin when we gave that loan, so that is not giving us any concern at this point in time. And even if another like say 10 %, 15 % crash, which is unlikely, we will still be having this in addition to the RBI given LTV margins. We have sufficient cushion at this point of time. So that is not a concern at this point in time.

Jai Mundhra: Okay. So, I mean, even irrespective of gold loan prices, you would have kept per-gram gold lending at what you said, INR1,000, INR1,100 at max, right?

N. Kamakodi: Yes, not only us, almost the entire banking industry had that discipline, and there was no undue competition. So, when the price increase was too sharp, we all adopted a wait-and-watch policy, and I don't think any bank ever offered, say, a per-gram rate beyond INR11,000 and all. Even INR10,500 was something that was maximum even at the peak level of INR15,000, INR16,000, whatever that happened.

Jai Mundhra: Okay. Great to know, sir. Secondly, on the cost of deposit and the yield on advances. For this quarter, the cost of deposit and the reported cost of deposit have increased by 3 basis points. Does this mean that, if there is no change in the rates in the deposit rates, card rates, the cost of deposit should start rising, or is there something unique to this quarter, and next quarter we should still see cost of deposit moderating, or how to look at cost of deposit incrementally? Have they bottomed now, should move up?

N. Kamakodi: See, there were some amount of fine-tuning when we saw what is that advance growth rate increasing at a much faster rate, some amount of 10, 15, 20, 25 basis points at that we had to fine-tune the rates to ensure that we get retail term deposits as usual with the flow so that we are not stopping the credit growth for not having the deposits per se.

But what I have to say is that it gave us a sufficient cushion so that we could even retire the high cost certificates of deposits and things like that. See, the one thing you have to keep in mind is that the 3-basis point, 5-basis point difference could happen even because of the variations in the average CASA rates.

These are all finer things you can monitor and control. You have to just report whatever that comes into. But what I can say is that there were no significant changes that happened in between and that's why we could almost have an incremental CD ratio of 100 percent.

We can, in fact, still maintain the liquidity coverage ratio, and we can go for another INR3,000 crores of advances without increasing the deposits and that much elbow room is also available. These sorts of tactical decisions we take depending upon the day-to-day ALM and the regulations that are prevailing, and don't read too much into a 3 basis point thing.

But what is available to you, it is very much on the table, is that on one side you had seen the rates getting reduced by the Central Bank, at the same time you saw the 10-year bond yields increasing, there were dichotomous responses with the liquidity, market rate, bank rate, and I mean rates given by the Central Banks and all.

They are not going in tandem, which they normally used to do during the normal business environment, because of so many changes due to the Iran war, when you saw a lot of fluctuations in the flight of capital from one place to another, like there are so many factors that were happening.

But we had even though we had terrifying fluctuations and signals in the TV panels, the operating level there was absolutely smooth and we did not have any issue, but how long this calm will continue, whether it will continue like this or whether it is a calm before storm, all these things depend upon how long the conflict goes there, whether you will have higher inflation because of the oil prices and things like that. So other factors are there, but up to this, don't read too much into these 3 basis points, 4 basis points, and all.

Jai Mundhra: Right, sir. And sir similarly on yield on advances, there was a 25-basis point rate cut even for the last 6 or maybe 12 months, the yield on advances are only even on a Y-o-Y basis is only down by 13 basis point. In the mix, we had a higher proportion of gold, so that is what may be helping. But have you passed on, I mean I'm sure you have passed on the 25-basis point and the MCLR book is also -- has that also been reprised? So, assuming no change in the RBI policy rate, how should one look at the yield on advances incrementally, sir?

N. Kamakodi: See, you may remember, I think in the last con call we said the passing of the rates was completed somewhere in the month of December, if I remember correctly, we specifically gave that, and that part is through. The incremental book, let's say for example it's a new contract and incrementally the weighted average yield is holding up, and that's why we are able to have, as you rightly said, 30 percent of our book is in gold loan, which is in the fixed rate, and non-agri gold loans are having even double-digit yields.

So even though you have only that mathematically speaking, only that let's say 65 percent of the portfolio or sort of incrementally the yields are holding up, and that's why we are able to see the margins holding to a greater extent.

Jai Mundhra: Sir, you would have passed on the rates, but the spreads you would have managed better, right? So that is why the yields did not drop as much apart from the gold loan and mix change?

N. Kamakodi: Exactly, that's why I said. Since 30 percent plus is on the fixed rate, maybe about the remaining 70 percent you can perhaps take apart from the other loans and all, about say two-thirds would have had that passing on. And incremental whatever the INR5,000-odd crores we booked in the second half, since we were able to book at the enhanced incremental yield, overall, we were able to maintain the margin.

Jai Mundhra: Right, sir. And second last question on ROA, right? So, we have delivered a very stable 1.5%, 1.55% kind of ROA, and maybe 1.56% this quarter. When do we achieve the next level, sir? I mean the growth is now coming back very, very strongly, margins hopefully as you said should be more or less stable. So, when do we go to the next level, let's say 1.7%, 1.8% ROA? I mean, what would be your sense for the next year ROA?

N. Kamakodi: Technically speaking, it is a futuristic question for which Vijay Anandh should answer. Before handing over the mic, maybe I can say one thing. Like you have started seeing in your DuPont analysis the operating profit margin has started holding up and the we had to go for extra provision for NPA because honestly speaking, somewhere around 2013-'14 we decided to have our net NPA always above 1 %, because keeping it less than 1 % was not giving us elbow room to manoeuvre things and it was giving us extra mental pressure to manage, and that was reasonably good compared to the peers in the sector.

That was the time when the AQR and all started, and things were much worthier for the industry as a whole, and we wanted to use Phase 2 to have higher things. So now, since the industry environment has changed, when stage by stage we had to, as you know, during the COVID period, the slippage ratio increased by about 1 % point more than normally. We used to have two, which has come down substantially.

That too in fact increased to 3 percent during the COVID period, the data is already there with you, and the recoveries were also not happening because the courts were not functioning. So, because of the last two to three years, we had to make substantial provisions to continuously reduce the gross NPA and net NPA %, and thankfully, because of the recoveries more than the slippages and also making more provisions, we are able to have the coverage ratio also improved.

So, since it has reduced maybe after it reaches further down, maybe we will get some extra elbow room even after making provisions for your ECL provisions and all, there will be some cushion which can improve ROA. But it is not fair on my part to explain further, over to Vijay Anandh, please.

R. Vijay Anandh: Absolutely, sir. I think we should exit this year with at least 10 bps more in ROA, so we should be there between 1.65% to 1.67%. That's the number probably we will plan basis the retail income deliverable and little bit of cost-to-income coming down. That's the endeavour to get there.

Jai Mundhra: Okay, great, sir. And last question, sir, on your association after...

N. Kamakodi: Yes, one minute. As we are talking, looks like the ECL circular has come. Looks like it has now asked the banks to adjust in the opening balance itself in the reserve so that no impact on the P&L. And since we have 20 % plus Tier 1 equity, let's say I don't think we will let's say the ECL provisioning requirement may not be there in the future, which is also a good news which we just we are receiving.

Jai Mundhra: Great, sir. The last question is, sir, on your association of course after demitting the executive role, I mean, sorry, what is the plan ahead? Do you intend to be there as a Non-Executive Director or you know that is not confirmed as yet or how do we see that transition, sir? Thank you.

N. Kamakodi: I'm honoured by this question and Board also asked me for my comfort to join the Board in the non-executive capacity, which I'm honoured for that offer. So, it depends upon the regulatory comfort.

Looking into the comfort of the regulator at appropriate time a call will be taken in future, whatever time frame on getting the acceptance you have on the comfort of the regulator we will be taking a call on this front. At the same time, Board has offered me an honorary position as the Chairman of the City Union Bank Foundation, which is the CSR arm of the bank, to oversee the implementation of the CSR projects.

And the same was offered to my predecessor and Guru Shri Balasubramaniam. So, he continued as MD and CEO when I took over in 2011 as MD and CEO, he was Non-Executive Chairman of the Board. After he had to retire after completing his 8-year tenure after the regulatory 70 years of age at that point of time.

So, after that Board offered him the position of City Union Bank Foundation and he had relinquished that position to me. So, post laying down the office as MD and CEO of the bank, I'll be honoured to take the position of Chairman City Union Bank Foundation. And any non-executive in the bank or the Board and all, it depends upon the regulatory comfort. Once we get a positive feedback, we'll take a call on the Board will take a call on that.

Jai Mundhra: Right, very clear, sir. Thank you and all the very best, sir. Thanks a lot, sir.

Moderator: Thank you. Our next question comes from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Thanks a lot. It's been amazing 15 years that you have given us, trying to understand the bank and the sector in detail. Just two questions from my side. One is internally at the Board level; do you have an upper limit on how much of gold loans the bank can take, and has there been any change recently? Number one.

And the second question, when you look at the demand for MSME loans that you're seeing on the ground, if you could just kind of give some colour as to is this just simply working capital utilization that is going up taking advantage of raw material prices, cash flow mismatches, what is the nature of the demand that you're seeing on the ground? Or are you doing much higher balance transfers as compared to what you did earlier? These are my two questions. Thank you.

N. Kamakodi: Yes, thank you, Mahesh. By the way when you said you're trying to understand the bank maybe at least I think in 15 years is a long time to understand, I think I hope you have that part is through because you have been interacting for quite some time and thanks for all the support and interaction whatever we had.

See, on gold loan, basically, the 30, 31, 32 itself is like say we are almost at the upper band. Even if it is a, what is that sweet Kheer, you will not be able to take beyond couple of cups or so. You need limit for everything. Maybe there could be that 1% or 2% here and there increase. So that 1% or 2% fluctuations could be there, but when it crosses 30, at least we have to take it with a pinch of salt is the approach which we keep for the gold loan, and this is something which we have to accept.

On the MSME front, the growth is because of the combination of all the factors which you mentioned. In fact, you may recall when the RBI policy statement was given out, it in fact talks about the capacity utilization of the economy has in fact increased, which went to about 70% post COVID. You will normally see capacity expansions happening when it crosses 84%, 85% and all.

You are able to see things reaching there and we could see many of these units are reaching their near capacity level, they are going for expansion, the utilization of the CC limit and all these things are happening. And in fact, when you compare that with the lowest SMA level which you are seeing, particularly in this geography where we are having our significant portion of our exposure, it's the combination of all the factors which you mentioned.

MB Mahesh: Just one clarification. When will you start tightening the filters on underwriting? As in what will it take for you to decide saying that things on the ground is starting to get a little bit more riskier than before? Given that we know where the fuel prices are and we know that there will be some impact on demand, what will it take for you to tighten the belt on that front?

N. Kamakodi: See, one numerical number will be your SMA numbers, first part. Second thing will be the anecdotal feedbacks which you get from the customers. See, day-in and day-out when we are at our central office, at least every day, we will be having not less than 4, 5 customer interactions when people who meet us will be of reasonably medium level all.

So whether we sit in our office or we go visit the branches and during the reviews, the feedbacks from the anecdotes which we get from our branch managers, from the customers we meet day in and day out, coupled with the SMA numbers what we are seeing, we will, get a feel.

That's how over the last 15 years to greater extent whatever I had felt during this interaction I have shared with you all during the con-call. So, the common sense says that you have to enter into the tougher period because of like say your inflation or global prices or things like that. And we are closely monitoring the situation keeping our eyes and ears on the ground to get the feedback.

So basically one thing which you have to see very clear is, the business loans whatever we are giving, there could be finer changes in the filters and all.

Whenever the filters which we are trying to fit, you should be convinced that they have sufficient resilience to run over through multiple business cycles.

Maybe like that incremental slippage rate of maybe 1% or 2% extra may come because of this economic cycles and all.

Maybe six months down the line if the economic downturn if at all it happens, it is going to affect all the existing customers also. So the, the filter whatever we are we keep will go with some extra caution, that is one thing, but at the same time we have to be very clear that unless and until something like that COVID happens and all, in other business cycles and all, the underwriting and all like we normally look into multiple business cycles and not just for like one or two downturns through which you are passing through.

MB Mahesh: Right, sir. So, one last question. What proportion of your loans would now be covered under the CGTMSE scheme or any other scheme of the government?

N. Kamakodi: It's very minuscule. Jayaraman, do you have the data with you? I don't think it is going to be more than 3% to 4%.

MB Mahesh: And you think it's not useful to take a cover today?

N. Kamakodi: No, see, there are multiple things. One, like say when you ask for the, the most of the customers when you deal with, they are happy with giving extra collateral and taking loans with the lesser rate rather than paying the CGTMSE premium.

MB Mahesh: Okay. Sorry, Jayaraman Sir, was saying a number. I just wanted to just take a note of that, sir.

K. Jayaraman: Number is linked at 3%, mostly around 2% to 3%, that's all.

MB Mahesh: Perfect, sir. Okay, thank you, sir.

K. Jayaraman: Okay.

Moderator: Thank you. Our next question comes from the line of Soubir Samadder from Axis Capital. Please go ahead.

Soubir Samadder: Yes, hi, sir. Am I audible?

Moderator: You are audible, sir. You may proceed.

Soubir Samadder: Yes, hi. Thanks for taking my questions, sir. So, a few minutes ago you said that with the new ECL regulations coming in, the banks would have to adjust through the opening balance itself and not through reserves, and hence not much incremental provisions will be required on the ECL front. However, the floor rates have been unchanged. So, I was wondering if, at this point, you would be more comfortable sharing your view on what the impact would be on the steady state credit costs? Yes, that's all.

N. Kamakodi: See, at least fortunately, this difficult question I have to pass and Vijay Anandh has to answer. But what I have to say is that if you had a chance to look into that 15-year figure, what we have given in our presentation, you can say in fact it is there in terms of credit cost post accounting for the recoveries from the written-off assets, the net provision in 2010-'11, it was 0.41, 0.15, 0.25, 0.5, 0.4, 0.5. It was 0.09 in '24-'25 and 0.04 in '25-'26 and all. The average works out to about 0.60 or so over the period of last 15 years.

Now with the improved underwriting based on the AI and the improved LOS and all, my expectation is that at least there has to be 50% reduction in this number in the next 15 years or so. But individual years, there could be aberrations as you move forward.

Moderator: Thank you. Our next question comes from the line of Suresh Ganapathy from Macquarie Capital. Please go ahead.

Suresh Ganapathy: Yes, hi. Thank you and congratulations, Dr. Kamakodi, for a very eventful stint at City Union Bank for the past 15 years, and best wishes for all your future endeavours, sir. It's been a pleasure knowing you and interacting with you. My question is to Mr. Vijay Anandh, the new CEO. Sir, what made you decide to join this bank?

I mean, you've been with RBL for a long period of time. You have worked in ICICI and other institutions. How do you see City Union Bank's culture here, how is it different from other organizations? Because you are, of course, stepping into big shoes now. So, we just wanted to know your perspective and your take having spent now almost couple of years with the bank.

R. Vijay Anandh: It's been wonderful, sir. I've completed two years, and it's almost 25 months. I think, first of all, I hail from this town and I come with 28 years of experience and last 15 years I think I was in Bombay. From Bombay, I have moved to Kumbakonam.

The major reason why I took up is that when I was interacting with Dr. Kamakodi and the Board, I was fully convinced that I should be here. I think my wavelength, my passion for what I wanted to do, was absolutely matching with where Dr.Kamakodi wants to take this bank to the next level, how he wants to take the bank to the next level.

And I felt that getting into this 120-year-old legacy institution, which has an impeccable track record and with the beautiful Board, I didn't even think twice, for sure. Culturally, I know that I will fit because I hail from this part of this town and my mother tongue is, of course, the same as what I speak here. So, a combination of factors, I think, made me move here for sure.

N. Kamakodi: Suresh, just adding to what he said, I think this question you should have reserved for the get-together tomorrow.

Suresh Ganapathy: It's a busy results season, sir, so I'm not sure whether I can make it. But yes, for whatever it is, I mean we just thought it'd be great to take his perspective and yes, to see. I mean, family and everybody is relocated to Kumbakonam, how is he handling those dynamics? Because these things are also at times important from fitting to the organization perspective, right, moving from Mumbai to Kumbakonam.

R. Vijay Anandh: Yes, my parents stay in this part of the town, so...

Suresh Ganapathy: Okay. Awesome, cool. That's very clear. Thank you, sir.

R. Vijay Anandh: Sure. Thanks.

Moderator: Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to Dr. N. Kamakodi for closing comments. Over to you, sir.

N. Kamakodi: Yes, thank you all for attending this call, and special thanks to Suresh, Mahesh, and all, because Suresh and all, perhaps we have been in touch for more than 15 years. I think even I remember the interaction we had in one of my travel to airport in the car itself. You all had been supportive of us over the period of time and because of you all I had a satisfying experience with the bank.

And I thank you all for all the support you have given, and I am sure you will be continuing with the same support to Mr. Vijay Anandh. I look forward to meet you all tomorrow in person where we can discuss some more numbers.

And more than that, it's a get-together time when we meet and exchange the good memories that we have had over a period of time. I thank Ambit for organizing this for over many years now.

And I am once again looking forward to meeting you all tomorrow at the Grand Hyatt, Mumbai by 5:30. Anybody who had not received the invitation or given RSVP, kindly get in touch with Mr. Jayaraman whose number is given in the presentation or with Raguraman whose number is given in the presentation so that to confirm your presence which will help us to organize things better.

And with this, I think I have completed a big responsibility, and it has been like a monkey is off my back. It's a moment of relief, because over the period of time handling things -- I mean, I was in fact telling, had I known it was going to be having so much weight, probably I would have thought multiple times before taking charge. But at that point in time, I was not aware that it was going to be so challenging and all.

But your support and God had given, showered extraordinary blessings so that all the efforts whatever we took we were able to see results. Now and then few times, we had minor accidents and bruises, but there was no fracture or bigger injury. It had been very satisfying tenure and with that satisfaction, I once again thank you all and looking forward to meet you all tomorrow. Thank you.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.