



“City Union Bank Limited
2QFY25 Conference Call”

October 21, 2024



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MODERATOR: **MR. PRABAL GANDHI – AMBIT CAPITAL**



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Moderator: Ladies and gentlemen, good day, and welcome to the City Union Bank Limited 2QFY25 Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Prabal Gandhi: Thank you, Neha. I once again welcome everyone for the City Union Bank's Second Quarter Earnings Call. We have with us, Mr. N. Kamakodi, MD and CEO, Mr. R. Vijay Anandh, Executive Director and Mr. J. Sadagopan, CFO.

Without further ado, I'll hand over the call to Dr. Kamakodi for his opening remarks. Post which, we can open the floor for Q&A. Thank you, and over to you, sir.

N. Kamakodi: Good evening, everyone. Hearty welcome to all of you for this conference call to discuss the unaudited financial results of City Union Bank for the second quarter / half year ended 30th September 2024. The Board approved the results today, and I hope you all have received the copies of the results and the presentation.

At the outset, our bank is completing 120th year of operation this year. I take this opportunity to salute all of our predecessors who had laid a foundation for our growth and also thank our staff, our customers and investor community at large, who has shown great faith in our bank. The date of incorporation was 31st October 1904. In our Q4 financial



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year '24 and the Q1 financial year '25 con calls, we have shared with you all our expectations for our current financial year as below.

- With all the new digital initiatives supported by strengthened top senior level management, we could see visibility on growth front going forward.
- We are also looking for other revenues for growth and putting our best effort to reach the industry level growth as soon as possible in credit.
- Post the MSME, digital lending model will be expanded to secured retail lending such as housing, LAP, micro LAP. In our last con call, we had also stated that we are building capacity as well as human resources in order to support our retail credit.
- On asset quality front, we will continue with the trend of reduced slippages coupled with the improved recovery for the current year.
- Our ROA back at our long-term average of 1.5% and it should continue. Since we are taking the cost upfront, our cost-to-income ratio will be slightly higher in the current year. And once the benefits of digital lending and other initiatives transpire into growth, the CIR will start coming down. We reduced slippages and improved recoveries will help to maintain our PAT growth. These are all the points I shared with you all during Q4 financial year '24 and the Q1 financial year '25 con calls as the expectations for the financial year, '24, '25.

For the current quarter and the current half year ended on 30th September 2024, we are almost on track on the expectations, which we shared with you all.

We had registered a 12 % advanced growth for Q2 financial year '25 year-on-year, and our advance increased to INR48,422 crores from INR43,688 crores in Q2 financial year '24. You may observe, we



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restarted our growth at the beginning of 2022 post-COVID and reached the 14 % growth for the December 2022 compared to the previous year 31st of December 2021.

The calendar year '23 was not good for us as we had to unwind our KCC gold portfolio among other things. And growth for December 2023 slipped to 2 % compared to December 2022. We restarted in January 2024 and reached a double-digit growth for June 2024. Also on a sequential basis, that is compared to 30th of June 2024, our advances has increased by more than INR2,100 crores, a 5 % growth in Q2, and we had achieved the double-digit growth consecutively in the last two quarters.

We have seen considerable improvement in our efficiency levels of credit sourcing, along with the digital transformation has resulted in reasonable credit growth. Our plans in pipeline like retail vertical and other avenues in advances will support us in terms of our credit growth once they are all taking a shape. Actually, if you speak, the current credit growth is achieved only with our traditional business lines like MSME, gold loan, etcetera. Actual incremental credit growth from the retail are yet to start. Therefore, whatever growth we have achieved so far this 12 % is from our core business, which we had done in the past.

Our deposits had grown by 9 % and stood at INR57,369 crores growth for Q2 '25 as compared to INR52,714 crores for Q2 financial year '24. In Q2 financial year '25, our deposits has increased by INR2,512 crores, a 5 % growth in the current quarter. So the average CD ratio for Q2 financial year '25 stood at 84 %. Cost of deposits stood at 5.73 % for H1 financial year '25 which is almost similar to the last quarter, that is Q1 financial year '25.

On asset quality front, as we stated earlier, the trend of recoveries over and above the slippages is continuing. For Q2 financial year '25, the total slippages is INR176 crores, while the total recoveries is INR265



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crores, consisting of INR201 crores from live NPA accounts and INR64 crores from the technically written off accounts, resulting in the slippages falling below the recoveries.

For the half year ended financial year '25, our total slippage was INR354 crores as against INR607 crores in the first half last financial year. On the other hand, our total recoveries in H1 financial year '25 is INR501 crores, consisting of INR393 crores from live NPA accounts and INR108 crores from technically written off account. As a result, our gross NPA % has sequentially decreased from 4.66 % on last year, 30th September, 4.47 % in December 2023, 3.99 % for the 31st of March 2024, and 3.88 % in 30th of June 2024, and now further reduced to 3.54 % for the current quarter, 30th September 2024.

Similarly, our net NPA number has reduced to INR775 crores and the net NPA to 1.62 % in Q2 financial year '25 from 2.34 in Q2 financial year '24. Sequentially also, it has decreased from 1.87 % on 30th of June 2024 to 1.62 %, that is 25 basis point reduction in the net NPA % for current quarter.

We conveyed that expected slippage in the financial year '25 would be about INR800 crores during Q4 financial year '24 con call. We are on track. As per the trend, we should be reaching between 1% to 1.25 % net NPA for the year-end. We understand that we are outliers in the provision coverage ratio. We will explore the possibilities of increasing the provision coverage ratio also this year.

Our interest income had grown by 10 % in Q2 financial year '25 and increased to INR1,434 crores from INR1,304 crores in Q2 financial year '24. Our yield on advances stood at 9.81 % for Q2 financial year '25 against 9.77 % for the same period last year. Our net interest margin for Q2 financial year '25 had improved to 3.67 % as compared to 3.54 % in Q1 financial year '25. And for H1 financial year '25, it stood at 3.60 %. It looks like the interest rate reduction cycle is some time away. As



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discussed in the earlier call, the margin should be at the 3.6 % plus or minus 10 basis points, as we discussed during multiple times in the past.

Our cost-to-income ratio for Q2 financial year '23 had reduced to 47.06 % as compared to 49.34 % in the Q1 financial year '25 and 51 % in Q4 2024, showing a sequential decrease. During the earlier call, we had said that we will see a reduction in the operating profit, but we will manage the price with the help of reduced credit cost. After 6 quarters or so, we have started seeing operating profit also showing growth as business has started showing growth, which is also getting converted into improved operating profit cycle.

Coming back to the cost-to-income ratio, once again, we saw the cost-to-income ratio for the Q2 coming down to 47.06 % from 49.34 % in the Q1 financial year '25. It was 51.26% in the Q4 financial year '24. Basically, like we said, the cost to income ratio will start coming down from the 50 % and we are seeing some traction. But this time, the impact was more because we could see the loan processing charges significantly improving from INR23 crores in the first quarter to INR38 crores in the second half, which also contributed for the reduction in the cost-to-income ratio.

Similarly, interest received from the income tax refund for first half of last year was equivalent to INR9 crores, which increased to about INR40 crores in Q2 FY 25. So as suggested in the earlier con call, we should start seeing the cost-to-income ratio, moderating between 48 to 50 % going forward and then showing a continuous decline.

Our ROA for the first half is at 1.55 % compared to 1.54 % in the corresponding period last. And as stated in the earlier con call, the ROA is stable for the past few quarters. And we should be able to see things stabilizing and probably inching up going forward. Overall, SMA 2 to the



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advances currently stands at 2.03 %. As we have been discussing in the past we are seeing this number coming down.

So we had achieved a PAT growth of 8 % that is current PAT for the H1 stands at INR550 crores against the INR508 crores for H1 FY 24. There is some base effect because the year before last, we had a very high PAT in the second half, which is getting maintained. But overall, you could see a significant increase, from Q1 to Q4 also, and we are able to see things stabilizing going forward.

As per the latest LCR guideline, our LCR is calculated as 121 % for 30th September 2024. We had taken steps both on liability side and asset front like going for some non-callable deposits, converting some foreign currency deposits on maturity into liquid securities and things like that.

So to sum up, our efforts have helped us to push our advanced growth rate towards the industry growth rate. And as I told earlier, the growth so far has come purely from our traditional MSME and gold loans. The new retail vertical and all, we are in the process of building that. And once they come into the picture, they should be helping us to get some more incremental advance growth.

We are confident to restore our credit growth on par with the industry level sooner and to go beyond. Our growth has started showing visibility on achieving our better NII growth and operating profit growth also. So both the NII and operating profit, growth was muted or even we saw few quarters of subdued NII and operating profit in the last few quarters.

Now we have started seeing the visibility in terms of seeing both NII and operating profit to grow so that this will be helping us to have a stable profitability as we move forward. We will reach between 1-1.25 % in net NPA by year-end is our current visibility. And we are exploring



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the possibilities of improving the coverage ratio as we'll be in a vision to better clarity as we move into the second half fully.

We expect our margins, cost-to-income ratio, NPA slippages to stay stable around the numbers communicated to you in the earlier con calls. And finally, we are seeing better visibility on growth numbers from our conventional areas and new avenues will definitely help us to add extra growth numbers, which will be available going forward in the future. So basically, this is what I wanted to communicate.

With this, I will probably take a break, and I open to you for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: So my first question is around the new retail product initiatives. So how many of these products already been introduced? And I mean, from a full year perspective, if you could guide what sort of growth we are expecting?

N. Kamakodi: See, as told in the earlier calls, the things are being now put. The systems have taken in a shape, writing the policies, training the people, having the people in place. All these things are now taking a shape. As explained in the last quarter, some amount of contribution to the business will start coming from the fourth quarter onwards. The significant contribution you will start seeing in the next financial year. As of now, like as I told, we have started taking expenditure on that front, but the business and income is yet to start. So the preparatory works are underway.

Mona Khetan: And from a full year for the entire book, what sort of growth could we expect for FY '25?



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- N. Kamakodi:** Yes. This question was asked again and again, in the last two con call also, I refrained from giving a number. Now you have started seeing the improved credit growth both in the first half and second half and numbers are framing up. And we are taking all our steps to ensure that we touch the industrial growth rate and probably, a small growth over and above that before the year-end is what we are trying to expect.
- Mona Khetan:** My second question is on this NBFC book that you have. Recently in the last quarter, two quarters, the growth in the book has grown by over 15% sequentially, the book where you lend to NBFC. Now I understand it's a very competitive segment. So what is helping this growth, if you could throw some light around it?
- N. Kamakodi:** See basically, the current level of NBFC as you see, our incremental NBFC book between 30 June and 30th of September is about INR315 crores. Year-on-year growth on that front is about INR500 crores and you have some repayment also happening in the portfolio. And we have not compromised about yield on that, it is closer to the average 9 to 9.5 -- the average yield of the portfolio is just under our average yield of 9.5 %.
- Moderator:** The next question is from the line of M.B. Mahesh from Kotak Securities Limited.
- M.B. Mahesh:** So just this -- yield on advances, which improved this quarter, if you can just kind of highlight what's happened there?
- N. Kamakodi:** Basically, we looked into the yield of gold loan portfolio, which we tweaked in the 3, 4 months, which works out 20% of our portfolio. And also, like as we had been discussing, last year, when the rate of interest increasing cycle was happening, we could not transmit a portion of that. So keeping that in the mind that we are closely looking into the books, which is coming for the renewal and we are able to see some amount



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of transmission in that also. So that has helped us to see a few basis point improvement in the yield.

M.B. Mahesh: And this will continue through the rest of the year? Given that not everything would have reached...

N. Kamakodi: Yes. Until probably the decreasing interest rate cycle starts, we will be in a position to go for this - a review of the rate and take a call in tune with our expectation of overall strategic intent particularly on the net interest margin.

M.B. Mahesh: Second question on this recovery from written off, about INR95 crores has come in the current quarter. sustainability at these levels?

N. Kamakodi: See, by and large, the total recovery numbers will be plus or minus INR20 crores, INR25 crores. When we take effort, we don't differentiate between which is live and which is technically written off. So these efforts for both technical written-off account and the live accounts are the same. So if we recover live accounts, it will reduce in provision. If the recovery happens in the technically written-off account, it will be in the other income. So it is very difficult to exactly predict how it will happen.

M.B. Mahesh: In the sense that the environment for recovery still looks to be fairly early?

N. Kamakodi: Absolutely.

M.B. Mahesh: And last question, sir. You had indicated that net NPA will come down to about 1.2% by the end of the year, is it?

N. Kamakodi: Yes. For the financial year.

M.B. Mahesh: And if you don't reach that number, you intend to make higher provisions. Should we look at it that way?



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N. Kamakodi: See, with the visibility, whatever we are getting in terms of the slippage and the recovery we are giving this. You cannot make a clear-cut thing, whether like, how it will happen on all such things. We have to wait and see how it happens.

If you increase the provision, the net NPA will decrease. This trade-off, we have to take a call on an ongoing basis. Based on the current level of policies, whatever we had been looking into, based upon the trend in recoveries and the visibility in slippages, this is what we are expecting at this moment of time. Any change in the expectation, we will communicate in the subsequent con calls.

Moderator: The next question is from the line of Abhijeet from Axis Mutual Fund.

Abhijeet: Sir, first question is on deposit growth. How do you see a liability situation for City Union Bank and the cost of deposits?

N. Kamakodi: We were able to match the deposit growth in tune with the credit growth, the current cost, whatever that has been observed, should continue for the second half of the year also by and large.

Abhijeet: So what is the LCR as of September end?

N. Kamakodi: 121%, which I gave during the call.

Abhijeet: Sir, just one observation. In the sectoral deployment of loans, the loans break up. The loans to the retail trade and wholesale trade that continues to reduce every quarter, what is the issue here?

N. Kamakodi: See, the trader segment, if they get the MSME certificate, then it gets recalibrated as the MSME. I think it depends upon the Udyam registration. The explanation is given in the Slide Number 31 at the bottom. So if you add both, by and large, there will be the same. Some of the traders because of the Udyam classification, they get reclassified.



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Moderator: The next question is from the line of Jai Mundhra from ICICI Securities Limited.

Jai Mundhra: Sir, two questions. First is on gold loans, sir. So the last two quarters, we have seen a very strong growth in the gold loan book. Earlier, we had this commentary that we would like to keep it a little bit calibrated because we want to do more of MSME and others. Has anything changed in terms of competition, there were a few players which were going under a tough period? Is that what has helped you and you also mentioned that you have increased the yield on the gold book, so if you can share some color there?

N. Kamakodi: Yes. See, basically, this is one segment. I mean, as I have been saying in the two, three con call earlier, you started seeing sudden spurt in the unsecured retail consumption loan, particularly for the last 4 to 6 quarters. As you all know, we are not very gung-ho about the unsecured consumption part per se. So this is one segment, there is a requirement in the market and which we can't stay away from that. This is point number one.

Point number two, when we get into the reducing interest rate cycle, you need a portion of your loan book in fixed interest rate on the short term, and this exactly fit into that thing. So we did some fine tuning on that front, like converting the floating rate of our gold loan into fixed rate and also fine-tuning the rates depending upon the requirement.

And it is helping us not to go to the riskier segment of unsecured retail at this point of time. At the same time, going towards achieving the targeted growth rate, which we missed last year. At the same time, it is giving the stability in the yield also. In all these metrics, it is favourable. And so since the demand is also there, we are continuing with this segment.



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Jai Mundhra: Secondly, sir, if you can share this loan mix by benchmark as to how much is MCLR, how much is fixed rate and how much is repo?

N. Kamakodi: 50% is the EBLR. About 30%-35% is our MCLR. Remaining is fixed.

Jai Mundhra: Even, sir, gold loan is -- also not the entire 25% of the gold loan is fixed, right?

N. Kamakodi: No. Incrementally, when they get renewed and the fresh are getting converted. So whatever you entered before taking this call, they will come for a review whenever they completed the one year or the due date for renewal.

Jai Mundhra: So then as of now, they are floating, right?

N. Kamakodi: Yes. Since now about 25, 30 % of them, of the gold loan has now got converted. So hopefully, since the rate reduction cycle is also getting postponed, we may be in a position to see maybe half of portfolio or even 50, 60 % of the portfolio getting converted from the floating rate to the fixed rate, which will give stability to the yield when the decreasing interest rate cycle actually starts.

Jai Mundhra: And secondly, sir, on the launch of the new retail products that we plan to ramp up, in the last 6 months there has been a lot of change in the macro environment, right, especially in unsecured and maybe lower ticket size loans. Is there any rethinking in terms of priority, in terms of ramp-up of those products, especially lack on unsecured business loan than unsecured PL maybe?

N. Kamakodi: Yes. Right from the beginning, when we started, we were very clear about two things. One, we are not entering into the unsecured in a big way. Our entire start in the retail is going to be on the secured retail lending portfolio per se. And, let's say, 4 to 5 years down the line, it will be about 4 to 5 % of the portfolio, the focus will be mainly on the secured lending space. So we are continuing with that.



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So to start that business first, you need the technology part that is ready. You need the senior management team that is, by and large, ready. The preparation of the policies writing down the operating manual and all are under progress. Field-level staff recruitment are underway. So by the beginning of the fourth quarter, we should be having the executive team for that policies. And also the grass root level people, everything will be ready by the, beginning of the fourth quarter. So some amount of minor initial progress will be seen in the fourth quarter, but actual line-up of growth you will be seeing in the next year.

Jai Mundhra: So the commercial launch is now in full quarter, right?

N. Kamakodi: Yes, it's a soft launch. And even the commercial launch will be a slow and steady launch only, we will be seeing some amount of minor progress in the fourth quarter.

Jai Mundhra: Right. And sir, assuming there is not a very meaningful proportion of the incremental growth, you are still confident that the traditional portfolio will drive growth similar to system level at least, right? That is the understanding.

N. Kamakodi: That's what I told you. Whatever growth we have achieved with the 12 % is from the conventional business mix, whatever we have been doing. So to achieve up to the industry level closer to that, I don't think we will be facing any challenges. And the secured retail whatever we are discussing, it will be taking our growth rate beyond the industry level growth rate is what we expect.

Jai Mundhra: Right. And sir, on cost to income or maybe in other words, incrementally now onwards because, sir, we had a very low base, right, in terms of cost to income or operating profit. As you said, the last 3, 4, 5, 6 quarters, we were continuously running a negative operating profit growth. So at least for the next 2, 3 quarters, the base is low. So do you think that incrementally the revenue growth NII plus other income



should outpace the operating expenses or that is more of the book base effect, right, because the operating profit was not growth actually?

N. Kamakodi: See, the first and the foremost thing is the net interest income. And you have rightly observed, we are just entering into that segment where we see the growth rate in NII and the growth rate in operating profit is positive where you get income more than the incremental expenditure.

Moderator: The next question is from the line of Bunty Chawla from IDBI Bank.

Bunty Chawla: Congratulations on the set of numbers. Sir, as you've previously said, because of this digitization and all, we have improved -- we are focusing on the improvement of the PAT on the traditional portfolio like MSME. So if you can share what is the status now? And how much improvement is still behind us in next two quarters.

N. Kamakodi: Yes. See, basically, at least 75 to 80 % of the MSME lending less than, say, INR7.5 crores, we are able to make between 3 to 4 days which is a very big improvement compared to whatever we have been doing in the past. So as I told you from 3 weeks reduction to 3 days, which is a very big improvement, which we have already seen.

Some amount of productivity gains we expect from this. We will be having the cases which are approved by the system green cases, rejected by the system red cases and amber where some amount of manual intervention is needed. We have currently about not less than about 50, 60 % of the cases are coming for the manual decision-making with the input from the system level thing.

Number two, some more improvement in the automation of the decision-making can happen in the next 6 months or so where we have to closely monitor the performance of the portfolio, maybe fine-tune your scorecard depending upon the performance and improve more of a green than red and amber. It will take maybe not less than 6 months or so. And like the acceptability of the system is improving. But lots of



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opening of the productivity at the branch level is still pending. So the future quarters, slowly the productivity from the branches should improve is what we expect.

That is the confidence which makes me say that with these existing business lines, we should be getting back to the systemic level growth rate without looking for the newer opportunities.

Bunty Chawla: Secondly, on the PCR part, in your opening remarks, you said we are an outlier. So we are focusing on improvement in the PCR. So any specific number we are targeting to achieve by end of FY '25 or FY '26 in terms of PCR?

N. Kamakodi: On PCR, we are completely on track when you include the technically written-off portion. We are getting repeatedly asked your PCR coverage ratio is low when we take it purely on the live coverage. As you have seen significant reduction in the net NPA %s that will automatically improve the coverage ratio also to some extent. I clearly told you that I want to have between 1 and 1.25 % on the net NPA ratio. I don't have any number or anything with me.

Moderator: The next question is from the line of Rakesh Kumar from B&K Securities Limited.

Rakesh Kumar: Sir, one question was related to the restructured book. So the number has come down from INR929 crores to INR858 crores in the September quarter. So do we have some write-back of provision because of that because we were holding around 14% provision on this. So would we have any write-back of provisions on this?

N. Kamakodi: See when we finalize the annual accounts in the last quarter, we will take a call on the surplus provisions post the completion of that 2-year tenure on restructuring or whatever it is, how much write back will be there, how much of that will be provided for the NPA itself. So



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depending upon the regulations and the recovery happens in the restructured portfolio, the decision will be taken.

Rakesh Kumar: Got it, sir. And sir, ROA target, like this quarter, we have done 1.6% so what could be the full year target, sir, for this year?

N. Kamakodi: As we have stabilized 1.5 % plus, we don't have any specific target on that number.

Moderator: The next question is from the line of Aviral Jain from Siguler Guff & Company.

Aviral Jain: Sir, if you could just elaborate more on the plans that you have been mentioning. First is on other retail products, which are secured in nature, such as housing, LAP vehicles. And then there was one more line of business regarding co-lending and lending to NBFC. So if you could just elaborate in the next 2 to 3 years plan as to how do you envisage that business up? I remember you had mentioned that this all put together would be 15% of the overall loan book at that time in three years' time. So how is the progress on each of these initiatives?

N. Kamakodi: No, no. I don't think we stated about 15 % number and all. It was very much less than 10% only, if I correct -- distinctly correct maybe 7, 8 % of first half. Basically, like for co-lending and the onward lending -- I mean, direct lending to NBFC is continuing, maybe like once we are able to see good growth in our conventional thing, we may have to slowly fine-tune that depending upon the requirement. So the technology, whatever that is needed for the co-lending and all are already with us now. So those things like going forward, like how the other factors like both secured retail and co-lending and all now Vijay Anandh will give you some feedback.

Vijay Anandh: So we will go with secured as planned for Q4 beginning. There is no change on LAP, home loans and affordable and micro LAP. The technology is ready and we just need feet on street. It should ideally



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be there in Q3. With respect to co-lending, we have technology, we will use it.

Aviral Jain: And this would be -- the own sourced book would be through by cross-selling to existing customers or within retail, you would go out and look for sourcing customers outside the existing customer base of the bank?

Vijay Anandh: We will also have new-to-bank customers. Predominantly, we will use our employee sourcing in South, our branch sourcing in South and this is our presence. For North and West, we can use third party.

Aviral Jain: This would mean DSAs?

Vijay Anandh: Yes.

Aviral Jain: Okay. And on co-lending, what sort of products would those be? I'm assuming this would be something that the bank would not be choosing to do in-house?

Vijay Anandh: If at all, we do co-lending, it will be only secured.

Aviral Jain: Okay. But this would be vehicle finance or...

N. Kamakodi: LAP and some sort of HLA is required.

Aviral Jain: Sure. And at a steady state, let's say, if you would start by Q4 FY '25, next year, this is the cost base that has been built in for such initiatives, what sort of loan book would you be targeting so as to make it in terms of profitability neutral for the bank?

N. Kamakodi: Yes, it would be about 2 to 3 % in the financial year '25, '26. So we gave you that we should be having about 7, 8 % in the next 3-, 4-year time frame. It could be around 2% -- 2-odd % for these sort of other initiatives to support us.

I don't know whether you remember another data which came in the earlier con calls, let's say, out of our INR45,000 to INR50,000 crores of



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whatever loan book we have, our customers have taken about INR7,000-odd crores worth of these products from the other financial institutions. So the deepening will be the first action in making our existing customers to probably get that converted from other institutions.

Aviral Jain: Sure. While I understand that large portion could be new to existing customers, but cost base to service retail would be high given lower ticket sizes. So I'm assuming this would be at a higher interest rate than what the current core business is at from a spread perspective, over your cost of funds?

N. Kamakodi: So we will be on par with the market. So that's the reason why I mentioned this in South, I will not use my third-party sourcing. And North and West is going to be third-party sourcing. So my branch distribution in South should take care of my retail business, which comes with zero cost or very negligible cost. In North and West, we use a third party, which would give me the blended average. So from the cost perspective, we ensure that we manage it rightly for the retail products. Today, we have 550-odd branches in South, which should give me a good retail business for the bank sourcing and I don't need to use a third-party majorly in South.

Aviral Jain: And what is the fixed cost addition that has been made for this initiative?

N. Kamakodi: I think, I explained in the last con call how much we made to BCG and how much elbow room it is giving us is what I gave you in a couple of quarters back. So you will be having around about INR30 crores, INR35 crores will be, by and large, the incremental business expenditure, which is already the greater part is observed in the overall scheme of things.



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I even clearly explained that you will have loss in the first year. It will break even in the second year and the profitability and accretion to the ROA will start coming only from the third year. By and large, we are on track in that direction.

Moderator:

As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

N. Kamakodi:

Thank you all for taking this con call. As we explained, we are able to get into the cycle where we have started seeing both operating profit and the NII started taking a positive tenure. Growth has also firmed up with double digit in the last couple of quarters. And, this growth has come basically from our conventional businesses and without adding any business from the retail whatever we explained.

The overall ROA of 1.5 % and all metrics have properly settled. We had about INR1,200 NPA addition 2 years back, which got down to INR1,000 crores for the financial year '24. And this year, we said we'll be having about -- around INR800 crores or less than INR800 crores addition. So on all these things whatever we said, we are on track and there is a very good amount of improvement in the overall scheme of things.

The net NPA has also decreased by about 25 basis points in this quarter. And the 5 % growth in deposits and the 5 % growth in the credit has also happened in the second quarter. So all these things are giving enough confidence that the things are on track, and we should be able to have better second half. If you have any more questions, you can get in touch with contacts given in the investor presentation.

Once again, thank you all for participating. And let's say, request your continued support going forward. Thank you all. Thank you.



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Moderator:

Thank you. On behalf of AMBIT Capital Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.