"City Union Bank 4QFY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the 4QFY2021 Earnings Conference Call of City Union Bank 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 the conference call, please signal an operator by pressing "*" then "0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over Mr. Ajit Kumar from Ambit Capital. Thank you and over to you Sir!

Ajit Kumar: Thank you. Hello everyone. Hope everyone is keeping safe and healthy. I welcome you all for 4QFY2021 earnings call of City Union Bank. On this call, we have Dr. N Kamakodi, MD and CEO of the Bank and Mr. V Ramesh the CFO. Thank you for this opportunity for hosting you on this call, over to you now for your opening remarks. Over to you Sir!

N Kamakodi: Thanks Ajit. Good evening everyone. Dr. Kamakodi here. Hearty welcome to all of you for this concall to discuss the audited financial results for the year and quarter ending March 31, 2021. Hope all of you and your family members are safe and following all Covid safety norms with mask and social distancing, etc.

Board approved financial results for the year and quarter ended March 31, 2021 today and hope all of you have the copies of the results and presentation. You are aware that the bank is paying dividend on continuous basis for over 115 years now. Even last year, we had paid an interim dividend of 50% before the restriction was announced by the RBI. Based on that option provided for banks to consider dividend the board has decided for an interim dividend of 30% per share for financial year 2021.

The highlights for the performance for the quarter and the year ended FY2021 compared to that of March 31, 2020 is also follows:

✓ Deposits recorded a growth of 9%.

- ✓ Credit grew by 7% thus the total business grew by 8%.

- ✓ CASA recorded 27% growth i.e Rs.12981 Crores from Rs.10,197 Crores

- ✓ The CASA percentage to total deposits also improved to 29% in FY2020-FY2021 as against 25% last year which is about 4% improvement in the CASA percentage for the year end.

The growth in the operating profit was 11%. Net profit increased to 24% i.e an increase from Rs.476 Crores last year to Rs.592 Crores this year. Return on assets for the current FY2021 is 1.15% against 1% for FY2020, over and above which we have taken as the COVID provision like last year.

During the earlier conference calls, we shared our expectations with you all for the FY2020-FY2021 as follows:

We said the credit growth will be mid to high single digits. The slippage ratio to closing advances will be about 3% to 3.5%. Restructured portfolio will be about 5% to 6%. Cost to income ratio will be about 42% to 44% level and we will be getting back to 1.5% ROA during the second half of FY2022-FY2023. We believe that we had shown a decent performance in tune with the expectations we shared with you all.

The credit growth for the FY2020-FY2021 was 7% and the slippage ratio to closing advances was at 3.01%. Total restructured accounts stood at 4.99% a shade below the expectations that we shared with you all. We had closed the FY2020 that is last financial year with the COVID provision of Rs.125 Crores, which was made during Q4 of FY2020.

We further made a COVID provision of Rs.100 Crores in Q1, Rs.115 Crores in Q2, and Rs.125 Crores in Q3 for FY2020-FY2021. In overall, COVID provisions stood at Rs.465 Crores as on December 31, 2020. Last year we kept all profits over and above ROA of 1% as COVID provisions and this year we have declared a net profit with ROA of 1.15% and the balance over and above the same has been retained as COVID provision considering the second wave and the uncertainty associated with that. Thus the adhoc provision currently stands at Rs.150 Crores as on March 2021 as COVID provision.

We hope the trajectory ROA level of 1.5% will be achieved during the second half FY2022-FY2023 as shared with you all in the calls. I want to mention here that we have made about additional Rs.25 Crores for the COVID provision over and above whatever we had during the Q4 of last year. For the FY 2020-21 the major credit growth came from jewel loan and extension of facility to ECLGS scheme. Of the ECLGS scheme under ECLGS 1, 2, and 3, we have disbursed an amount of Rs.2096 Crores for an exposure of about Rs.10,445 Crores constituting about 5.63% of the advances.

We expect a further sanction of about Rs.200 Crores from ECLGS 3.0 scheme. The government guaranteed ECLGS scheme 1, 2 and 3, in fact most of the credit of MSMEs and also non-MSME sector and businesses have started generating surplus. This has also resulted in improving capital adequacy ratio as the disbursement to the ECLGS scheme attract no risk weight and is guaranteed by the government.

We had discussed during the December 2019 concall in Q&A session that the SMA2 numbers are around 6%. Earlier couple of years back it used to be to the level of 10% and after that it stabilized around 6% when we discussed this point in December 2019. Because of the standstill clause we were discussing the monthly collection recovery status in our previous three quarterly calls. But as standstill clause was removed by the Supreme Court, the NPA addition has now become current i.e. 90-day overdue and that is why we are directly now declared the NPA.

We had disclosed a slippage of Rs.1134 Crores in Q3 FY2021 as pro-forma NPA against which the actually slippage for March 31, 2021 stands reduced at Rs.1110 Crores. This is basically because after the Supreme Court judgment the collections started showing improvement. The slippage ratio for FY2020-FY2021 remains at 3.01% against our expectation of 3% to 3.5% which is almost in the lower bracket. Our SMA2 position stands at 1.99% as on March 31, 2021, which is much below our earlier band of 5% to 6% which we had earlier.

In fact, you might have clearly seen the final slippage for the March was in fact lower than the pro-forma slippage which we discussed during December because the people have started showing repayment after the Supreme Court Judgment. Some amount of reduction in the credit we could see after the second wave, which we are witnessing. As said in our earlier February concall, sectors like hotels, retails, passenger transportation - which were opened in late December, managed to certain extent positive cash flows and things were better till April 2021.

Repayments started coming and that is why the arrears started showing reducing trend; however there are some amounts of reduction in the credit after the second wave. Because of the lockdown measures things started seeing some amount of deterioration in the subsequent collection. The impact due to the second wave particularly in terms of the number of infections and the death rate may be looking higher, but our gut feeling so far is that though the impact of second wave of COVID is much higher in terms of infection and mortality, we believe that impact on growth and situations for our bank will not be as bad as we saw in the first wave and could be slightly better. I do not say that we will be seeing milk and honey is flowing, but it looks like now things are not as bad as the same time last year.

During the Q4 we had restructured about 1086 borrowers to the tune of about Rs.1116 Crores. The total restructured portfolio for MSME account on March 31, 2021 stands at Rs.1849 Crores and overall percentage restructured account constitutes about 4.99%.

The net interest margin for FY2020-FY2021 stands at 4%. The net interest margin for the Q4 2021 stands at 3.72%, which is because of the reversal of total interest on the NPA accounts to the tune of Rs.125 Crores for the period of 13 months from February 2020 to March 2021 subsequent to the Supreme Court verdict and the resultant slippage of Rs.1110 Crores.

Considering the provision made towards interest reversal during Q2 and Q3 to the tune of Rs.55 Crores, the net reversal in the Q4 stands at Rs.70 Crores and that is why the quarterly figures may not be comparable. So if we look at on an annual basis, the overall net interest margin is 4%. Similarly if you give effect to this sort of one time impact in the Q4, the NIM would have been around 4% as we have recorded in the earlier quarters. We had made good treasury profit up to Q3 of FY2021 but because of northward movement yield, we could not make much profit in Q4. We had utilized the yield movement and had we not encashed the profit in the HTM portfolio, we could have lost the opportunity to making the profits. We had utilized the same to the maximum extent possible and the profit made from HTM portfolio was over 5% and the overall depreciation i.e. the mark- to-market loss is hardly about Rs.1 Crores on March 31, 2021 for the entire HTM portfolio.

We had in fact played that card well while selling the portfolio reducing and managing the duration and things like that. The operating profit for the current financial year improved by 11% to Rs.1084 Crores from Rs.1341 Crores last year. Profit after tax improved by 24% to Rs.592 Crores against Rs.476 Crores. Once again I want to make it clear that we had an additional COVID provision for about Rs.150 Crores or so, which is set for second wave. So that is one more cushion which we have kept for the future.

We shared with you all in the earlier concall on the cost to income ratio of 42% to 44% for FY2020-FY2021 and we ended the year with about 41.45%. Cost to income ratio for Q4 is 51% because of the onetime reversal to the tune of Rs.125 Crores of interest reversal on further slippages. Also in Q4, we did not have the opportunity for the treasury profit so overall we could very well complete the year with whatever range we had achieved and in fact better than whatever we shared with you all.

The recovery of NPA account also marginally increased to Rs.110 Crores i.e Rs.76 Crores in live and Rs.34 Crores in technical write off during the Q4 compared to Rs.106 Crores with a live recovery account of Rs.73 Crores and technical write off recovery of Rs.33 Crores in Q3 FY2020-FY2021. The total recovery for the whole year was Rs.324 Crores with a live recovery of Rs.221 Crores and technical write off recovery of Rs.103 Crores against Rs.409 Crores comprising of live recovery of Rs.300 Crores and Rs.109 Crores technical write off recovery in FY2020-FY2021 predominantly during the pre COVID period.

Based on the recent RBI guidelines we have transferred a sum of Rs.18.65 Crores from the floating provision to specific provision. Though we could see some improvement in the recovery during the last quarter, because of the present second COVID we expect that there could be still some slowdown in the progress of recovery as Debt Recovery Tribunal are not working fully. Also because of the COVID lockdown, Registrar Offices particularly in Tamil Nadu are not functioning which is hampering the recovery efforts and also the sale of non-core assets by the borrowers. The gross and net NPA stands at 5.11% and 2.97% respectively against the 4.90% and 2.29% for the last year. Our net NPA to net advances stands reduced to 2.97% as on March 31, 2021, which were 40-basis points less than our pro-forma NPA level of 3.37% on December 31, 2020. It has to be mainly attributed to the psychology or increasing trend in the recovery after the Supreme Court judgment this month. Those who are holding back repaying because of the COVID this month we started getting something better and that is why it will optically look as if there was Zero slippages for the Q4 per se.

As directed by Honorable Supreme Court we have credited the sum of Rs.14.50 Crores worth ex-gratia payment on interest on interest for borrowers for the entire moratorium period of six months for the specific credit facility of less than Rs.2 Crores in December 2020. The entire sum was received by us during April 2021. Further, we have made a provision of Rs.21.50 Crores towards ex-gratia payment for interest on interest for credit above Rs.2 Crores in Q4 2021 awaiting final guidelines from RBI.

The capital adequacy ratio for the year was 19.52% of which Tier 1 itself stands at 18.45%. It is mainly because the improvement for FY2020, we had 16.76% which increased to 19.5% mainly because the bulk of the incremental loan growth came from the ECLGS scheme and the incremental gold loan, which attracts 0% risk weight. Hence we are currently adequately capitalized and as we discussed earlier multiple times in the past, it looks like we do not foresee any capital infusion in the current year yet. We will be evaluating the options of having enabling resolution passed by getting the shareholders approvals during our AGM through QIP if at all it is needed for various reasons including any potential change in the regulatory environment or whatever it is.

To sum up, the FY2020-FY2021, we were able to deliver almost on dot on all the parameters which we shared with you all. The gross and net NPA and restructuring and all also exactly at the point where we shared with our expectations and also the percentage CASA also improved and showed decent improvement overall.

Coming to the expectations from FY2020-FY2021 the second wave in fact makes us to believe that the credit for the current year will also be mid to high single digit if the economic environment and COVID second wave starts behaving like last year. We got some extent done because of the COVID, but the major difference is the availability of vaccines which is giving some amount of comfort to us. So the expected overall slippage to the closing advances will be slightly below the FY2020-FY2021 for the current year. In fact, we were always conservative and used to take the impact upfront so that we will be having the smooth future as we move forward.

That is why we could clearly see the total slippage of FY2020 and FY2021 was by and large almost same and the expectation for FY2021-FY2022 should be slightly better than FY2020-FY2021. At the same time since we have total lockdown in three states particularly in the state of Tamil Nadu where we have the bulk of our operations, the collection efforts are dampened and some amount of impact on the collections are there. We expect even though for the year as a whole the slippage may be slightly lower than whatever we saw in the FY2020-FY2021, the slippages could be front loaded may be in the first one or two quarters and we will be seeing things getting eased up once the lockdown is removed. Because of the lockdown, the property sale transactions are standstill and government registration departments are closed and that is why we expect to see some spike but overall slippages but at the same time slightly better than whatever we saw in FY2020-FY2021.

Similarly as an extension to that though we expect our gross and net NPA for year end FY2021-FY2022 will be lower than whatever we have seen in the FY2020-FY2021, there could be quarterly spikes. Also the legal battle such as DRTs & Courts are not functional as of now and we expect that they will be sympathetic towards defaulting borrowers than the banks so we have to wait for things to settle for some more time. We still believe that we should be able to touch to ROA of 1.5% towards the second half of the next financial year as discussed in the earlier quarters. We hope the adverse impact of second wave on the growth and slippages will definitely be there but it may be not as bad as the first wave. To sum up the FY2020-FY2021 almost ended like what we thought during the beginning of the year and we hope the FY2021-FY2022 will not be as bad as FY2020-FY2021. It should be slightly better. With this opening remark, I would like to open the questions to discussion. Over to all!

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentleman, we will wait for a moment while the question queue assembles. The first question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: Thanks Dr. Kamakodi for the detailed outlook. Is it possible to give guidance on couple of things? It is very uncertain about the COVID second wave as of now but having said that can you throw some light on the credit cost for FY 21-22? Also, can you tell what could be the slippage and restructuring numbers for FY2022 any rough guidance that we have to track going forward?

N Kamakodi: Suresh thanks for the question. As you rightly said it is very fluid on one part but at the same time I have given enough broader expectations. We have given the broader expectations of all these slippages and other parameters what we are expecting for FY 21-22. So you will be in a better position to make your calculations secondary to all that.

Suresh Ganapathy: The question on SMA outlook in general because the last time we had ECLGS funding and plus the government had also come out with a lot of schemes. So how confident you are that the SMA portfolio that you have got can withstand this second wave reasonably well because you are saying 2022 will be better than 2021 which means that you are telling these SMAs can handle all the stress even without any kind of support? Can you give any qualitative comments as to why your SMA portfolio is holding off well?

N Kamakodi: Finally, as we discussed with you all during the last year on Q1 and Q2 you have the multiple stages of impact such as covid started the lockdown implemented and people doesn't have cashflows. Then you had some arrival of cash flow after the relaxations but not sufficient to take care of the regular expenditure and then the third stage when the cash flow was sufficient to take care of the thing but not for the bank repayments. Overall, those type of situations are not currently say at the time of lockdown of COVID 1 the cash flow are not becoming zero. All the doors are not closed. This point is a major one. Number two, lots of vulnerable people who got affected because of the COVID and many of them had arrears or issues even before February 29, 2020 and the SME units whose capital got eroded because of the fixed expenditure and that is why who could not make it even if ECLGS 1 and 2 and were all extended. Another item what you have to look into is the majority of the businesses, the amount of activities that happened in the last two to three months, majority of them had almost about equal turnover in FY2020. So going forward those who could not withstand by and large is gone. The current level thing is like people have also learnt it. I do not say that as I told you it is not going to be milk and honey this time, but the qualitative impact because of this in the second wave will be unless or otherwise their health got affected. We are not going to see many incremental cases now and this judgment is on at as is where is condition.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Thanks for the opportunity. I have three questions. First one I missed your comments on the slippages because if I remember right as of nine months our slippage was Rs.1150 Crores. So if you could just explain if you imply the current number it becomes negative for the Q4 so it seems that there is some netting off so if you could explain that? The second question was relating to credit growth. Last time you mentioned that we should see low double-digit credit growth driven by ECLGS disbursement, jewel loan and gradual pickup in utilization what would be revised comment here on credit growth? The last question is on credit cost normalization. Again, I think our expectation was that from second half of this FY2022, we should go back to the normalized credit cost and return ratios should return to the 1.5% kind of quarterly level from the second half. Do we still hold to that level of expectation? Thank you.

N Kamakodi: Your first question on the slippages on the Q3 and Q4. It is basically because after the Supreme Court judgment came the collection and propensity for repayment has increased and some of the people who were having sufficient cash flows to repay but who chose not to repay the banks because of expecting some favorable judgment from Supreme Court had paid and that is why the Q4 overall the figure is by and large same. By and large this has to some extent stopped any further incremental slippages in the Q4. This is on that particular front. On credit cost front, I do not talk about the credit cost per se because credit cost is a function of your gross slippage, NPA recovery and other parameters. I always start with saying what are all going to be the slippages and I leave to the analyst community to make your own judgement. If I give everything I have then I will be stealing the job of the analyst community per se. Basically, what I am trying to say is that the current year we expect the slippage level in fact compared to the slippage level in FY2020-FY2021 it is almost there or even a shade better than whatever you had in FY2020. For FY2021-2022, we expect the overall slippage ratio will be better, but they should be front loaded as we are having lockdown presently. Overall, the annual slippage ratio will be slightly better. This is on that. What was your third question?

Dhaval Gada: The third question is related to credit growth.

N Kamakodi: We expect once again to some extent from the gold loan and then from the normal credit growth rate, we still believe we should be in a mid to higher single digit as we did in the FY2020-FY2021.

Dhaval Gada: Sir just one followup on slippage. You said that it would be front loaded. Just your expectation on the restructured book? How much do you expect slippage from the restructured book any guesstimate you have there?

N Kamakodi: When I say the final number it includes everything.

Dhaval Gada: Okay understood. Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Thank you very much Sir for the opportunity and I think the numbers are commendable in times like this, so congratulations for the same. Sir my two questions are as follows; One with respect to provision coverage ratio. In your opening remarks you mentioned that we have retained ROA at about 1.15% and anything which is residual we have transferred to provisions either on NPA or COVID related? My question is in two parts one if we had capped this number actually flattish versus last year that would have released another about Rs.80 Crores of provision so we could have checked up our provision coverage by another about 300 basis points and what thought process was behind carrying forward Rs.150 Crores of COVID provision by providing more in this quarter rather than straightforward doing provisions on the NPA side and we could have jacked it up actually up to about 55% to 57% odd so two parts one why that 1.15% ROA sort of target there why not slightly lower? Point number two, why not do a straight provision NPA and carry forward as COVID-19 provision? Second question is that if I were add back that Rs.125 Crores of interest income reversal our preprovision profit as a percentage of total assets is now back to our historical sort of high? In light of that when you are saying that we will reach a normalized ROAs only in FY2023 is this like a sort of worst case scenario that in worst case we would probably in FY2023; however, there is lot of scope for positive surprises over there? So these are my two questions?

N Kamakodi: If I go for the provision coverage ratio let us say I have to go far more account specific provisioning, if you had seen in the past and our track record it was in the range of 60% to 65%. So that is why we do not give too much importance to be provision coverage ratio per se because all of our exposures are let us say fully collateralized and we were able to recover significantly.

Kashyap Javeri: I would like to mention here that our recovery rates are about 60%-65% presently; however, if I look at last about four-five years back not actually been the case. You know, our recovery rates have been falling for last about three to four years. I mean historically, they were in probably about 65% to 80%; however, that scenario how we actually changed in the last four to five years?

N Kamakodi: As I told you this is because of extra delay which is happening because of the lockdown closure, of course, Supreme Court judgement and things like that and we do not have any doubt about coming back our trajectory recovery level of 65% - 70%. So there could be even some amount of delay because of the court procedures and things like that. So we do not have much botheration about that particular point so that is why we make all these decisions based on rough estimate of what we see in the future. So depending upon the requirements say last year think we are very bleak so we decided to keep everything at 1% over and above that we reversed despite making a loss in the fourth quarter. Last year things were totally blank and nobody had any clarity on what was happening. But now, even though the impact of COVID 2 is higher, the visibility what we are able to see is better than what we could see during the last year. So that is the purpose with which we decided and we do not give too much importance to the coverage ratio per se as a factor which I have explained multiple times in the past. What was your next question?

Kashyap Javeri: Second question was that if I look at your preprovision, return on assets, if we adjust for that Rs.125 Crores of interest income reversal at about 3.1% plus, we are already back to historical in terms of at least preprovision returns on that side so why 6% has been in FY2023 is that like a worst-case scenario and there is significant positive surprise probably expected in next few quarters and with that why can't we say it will be in the end of FY2022?

N Kamakodi: Hypothetically assume that by September 30, 2021 all the vaccination gets completed, COVID level come back to what we had in February type numbers, self dignity is setting up for the course, and the courts and all started functioning back on the previous track record which I wish probably things can happen much ahead. Let us say basically after things are normalize we will be requiring about to say, for example, at least four quarters for completing the legal process for recovering the NPA so that is going to determine what happens and I am having that in my daily prayers and request you also have this in your daily prayer so that things start happening, much faster. Whatever the future my expectations what I shared is based on the reasonable estimate of what we think that could happen in the foreseeable future.

Kashyap Javeri: Thank you very much Sir for that explanation. This is really helpful, Sir.

Moderator: Thank you. The next question is from the line of Renish Hareshbhai Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Congrats on a great set of numbers. The opex has actually gone up by almost, Rs.40 Crores incrementally so if you can just throw some light on it and what is driving this incremental Rs.40 Crores on the opex side?

N Kamakodi: See basically 8% growth on the business and 8% slightly equivalent growth is something that is quite natural, but if you look on the year-to-year basis between financial year 2020 and financial year 2021, other operating expenses have shown a growth rate of 4%, which is lower than the growth rate of business so there could be quarterly aberrations which like let us say for example how much you provide for your leave encashment, I mean there is a lot of case which you do only at the last quarter which depends on other interest rates and so many other factors but overall if you look at the entire other expenses for financial year 2020 to financial year 2021, the overall growth rate is 4%.

Renish Bhuva: Got it. I just wanted to reconfirm that there is no one-off in other opex plant item for this quarter?

N Kamakodi: During Q4 we bought PSLC to meet out PSL Agri target and we spent around Rs.28 Crs.

Renish Bhuva: Second question is again on this entire structure set formation so if I heard you correctly that you were saying that till April the cash flows for these SMEs were intact and maybe the kind of cash flow loss which was there to see would be limited to May and probably some part of June and that is what is giving your confidence that this year slippages might be lower than last year. Is that the correct assumption Sir?

N Kamakodi: Yes to a greater extent. What I am trying to say is that last year you had the impact of COVID, the first set of casualties were those businesses which had some amount of cash flow issues and which had overdue even on February 29, 2020. They were the first set of casualties. The second sets of casualties are those, whose networth completely got eroded because of COVID first wave. Sectors like hotels, retails, passenger transportation - which were opened in late December, managed to certain extent positive cash flows and things were better till April 2021. Repayments started coming and that is why the arrears started showing reducing trend; however there are some amounts of reduction in the credit after the second wave. Because of the lockdown measures things started seeing some amount of deterioration in the subsequent collection. The impact due to the second wave particularly in terms of the number of infections and the death rate may be looking higher, but our gut feeling so far is that though the impact of second wave of COVID is much higher in terms of infection and mortality, we believe that impact on growth and situations for our bank will not be as bad as we saw in the first wave and could be slightly better.

Renish Bhuva: Just last question. So in terms of helping the borrowers where we do not see there is a business by them and you know there is a sort of cyclical impact on their cash flows so this year we have restructured almost 5% of the other and maybe another 5% in terms ECLGS so roughly 10% set of borrowers we have helped either via restructuring or either via ECLGS. So this year I mean how we going to help them?

N Kamakodi: To greater extent, the cash flow they could see except for those business lines where let us say capacity utilization by and large did not happen. By and large this cash flow issues were solved that is what I am trying to say. Only those businesses which could not see their impact getting to a greater extent normalized during the fourth quarter and their cash flow problems are continuing over a period of time, they are the people who are going to get affected now.

Renish Bhuva: Got it and Sir just last one question from my side so on the SMA2 number, which we highlighted as on March 2020, we added 2% versus 6%, historical runrate so is there any structural thing which is driving this lower SMA pool or it is just because of the accelerated recognition in Q4 at like to this low estimate to pool?

N Kamakodi: See basically, you can clearly see a pattern where the fourth quarter particularly after December once the economy reopened fully, things started moving as this will save to a greater extent, they were almost come back to the financial year 2020 turnover.

Renish Bhuva: Okay. But there is no structural of which we are driving, which is leading to these levels?

N Kamakodi: No. It is the same borrowers, same business, so everything is totally locked and you are asking to repay, they were not able to do once they have opened they started doing their businesses and started seeing good amount of cash flow also, things looked suddenly good but suddenly second wave came that is a reversal, which once again, is creating some amount of problem so we have to let us say understand this and go with the wave.

Renish Bhuva: Got it. Thank you very much for the detailed answer. Thank you so much Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI. Please go ahead.

Amit Premchandani: Thank you for the opportunity. Last year you had guided for around 3% to 5% restructuring any guidance for FY2022 on the restructuring front?

N Kamakodi: So far I do not have anything on hand. I will get a better clarity because you have to now see a better window or changes to the older thing. It depends upon any future regulatory forbearance given by the regulator and I will be able to give a better clarity on this particular point, probably along with my first quarter result. At this point of time, I do not have any I mean, except for those I disclosed not much pending thing in my hand.

Amit Premchandani: In terms of the activity level in the geography that you operate in. What is the impact say in wave two as compared to wave one in terms of percentage of activity levels?

N Kamakodi: During wave one lockdown, perhaps from March, April and May almost all the activity level became zero and that is why the ECLGS were required to make the ball rolling and we did a good job in getting things back on track. Now, many of the activities are not absolutely zero as like in covid wave 1 and some amount of ground level activity is going in even under the present lockdown.

Amit Premchandani: Thank you. That is it from me.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir first question is on gold loan, you have done a strong growth in gold loan and I just wanted to understand is it something to do with pandemic and hence there is more demand from bank side? It is always makes sense to do gold loan but it is more demand driven. Is it because of RBI higher LTV dispensation or something that we have been done internally? Have you launched any new product or run any activity in the network to do gold loan and how should it pan out in FY2022?

N Kamakodi: It is basically the combination of everything which you mentioned and probably one additional thing. I mean I used to face a question earlier like why are not doing gold loan or sort of thing. I have clearly given. I used to do gold loan at those branches wherever I do not have anything else to do. I normally use this business when I have surplus capacity in my branch network. Also, as a substitute for the agricultural gold loan in the rural and semi-urban branches. This time almost throughout the year since, the movement of the persons were restricted because of the COVID restrictions and other safety precautions, we were not able to do anything much and we gave a sufficient time and resources focus on the gold alone which has helped us to see this much amount of growth.

Jai Mundhra: Second thing is on ECLGS. Now, how do you see? Because these loans are clearly customers some handholding and if I were to ask you that even pre-COVID at system level at least there was a reasonable strength in SME, and what is your best way of stress in ECLGS not in FY2022 but beyond and if you can quantify the associated principle which is there. Because we have sanctioned Rs.2200 Crores, outstanding is only let us say Rs.1960 Crores but what would be the associated principle because people may have taken ECLGS and repaid their loan so any color on that?

N Kamakodi: The point is what you have to understand is that ECLGS scheme was not available to the SMEs who were under this stress on February 29, 2020. For example if they were in SMA2 they were not eligible. Similarly for non-MSME also even if they were SMA1 they were not eligible. So what has happened is that SMA accounts literally eliminated from getting the ECLGS scheme. When we go for ECLGS which is guaranteed by Govt and it has got its own repayment tenure up to four years or moratorium or whatever it is. So we will use it when we go for the additional funding, which needs to be given for incremental growth, which normally happens, enhancements, which we give normally. We look into the outstanding of ECLGS and to that extent the incremental; enhancements will not be given so they will get the average route in 1.5 to two years in the normal course of time.

Jai Mundhra: You have mentioned a new fraud account and there was Rs.1 Crores fine by RBI if you can provide some more details here? Thank you.

N Kamakodi: Basically we had an account called Government Telecom Employees Cooperative Society. This was run by employees of telecom department, employees for the co-operative society for which we had in the past given Rs.25 Crores loans in two to three occasions and they had repaid. This relationship was started somewhere in 2010, the first loan they closed in

2017 and it used to be on EMI basis. Once again they had in 2011 which they closed in 2018 and in 2018 they asked for another Rs.25 Crores. Since we have a track record of two times we had given and they have repaid and about Rs.13 Crores to Rs.14 Crores pending. They had some deposits also after adjusting that about Rs.14 Crores - Rs.15 Crores of outstanding is there. Their repayment and whatever we had so far we did not have any issues at all, but there were some issues with the other bankers which also reflected and now because of the current regulations, we also had to declare it as a fraud. Because of that we have disclosed this account as fraud one and it will have net impact of about Rs.3 Crores to Rs.4 Crores per quarter for the next three quarters as provision. Your next question was on RBI penalty. We got the RBI's show cause notice. Normally what happens is that after that our annual financial inspection the Enforcement Department will pick up what are all over the grave mistakes which we have done and based on that the show notice will be given and for which we have to answer, an inquiry will happen based on that they will be taking a call. So based on the inspection reports for dated March 31, 2019 RBI gave us a show cause notice with three charges on us; the first charges was non-obtention of credit information report from the transferor bank. The bank before taking over borrower accounts of 238 customers during 2014 to 2019 i.e in five years, failed to obtain necessary credit information from the transferor bank. They are talking about 238 accounts in five years and we gave sufficient argument and documents from our side and RBI dropped this charge. The second charge, what RBI gave was that acceptance of collateral securities for MSME loan less than Rs.10 lakhs. The bank did not adhere to RBI directions when it accepted collateral securities from 563 MSME borrowers who had availed loan up to Rs.10 lakhs during the financial year 2018-2019. Similarly, there was a charge that the acceptance of collateral security for educational loan. Bank did not adhere to RBI direction when it obtained collateral securities while extending 106 educational loans up to Rs.4 lakhs during the period 2005 to 2019 that is in 14-year period. We had extended 106 educational loans up to 4 lakhs and obtained collateral securities. This was basically the charges and RBI has penalized for the same. The third one was acceptance of security for agricultural loans. Bank did not waive margin security requirements while extending 187 agricultural loans up to less than Rs.1 lakh to individual borrowers during 2016-2019 that is in three years 187 cases where loans less than Rs.1 lakh where a margin requirement were given. These are all basically the three charges. In these three charges everything is boiling down to getting collateral security. We gave explanation from our side. These sorts of things were too small and they escaped our attention and for which the RBI has imposed a penalty of 1 Crores.

Jai Mundhra: From this practice because of RBI fine or getting more collateral or you will continue because it looks like prudent banking but of course RBI is not happy so I just wanted to take have you changed the method or you will continue to do the way you have been doing?

N Kamakodi: We cannot do something which is not liked by RBI. Basically what has happened is that these are too micro things which were escaped our attention. Overall impact on our exposure for that is not even 0.5%. It will not affect even 0.5% of the overall loan book or whatever it is. As a banker we cannot afford to not follow RBI guidelines.

Jai Mundhra: Thank you Sir. Thank you for your time.

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

MB Mahesh: Sir couple of questions on this exhibit 29 and if I were to just look at what have you disbursed or restructure disbursed to ECGL or restructuring how would you split that up Sir? In page number 29, under loan book sectoral deployment, should we just add the most of ECGLS disbursement, restructuring and the slippages coming in from wholesale traders, retail traders and MSME or do you see any other segments of the business which have taken a higher impact as well?

N Kamakodi: By and large let us say since this should take care of our maximum amount of loan book, the contribution to that will by and large to get themselves using the credit.

MB Mahesh: For you the slippages have been there from gold loans for that book is absolutely safe?

N Kamakodi: See you will always have slippages from the gold loan but the loss will be 0 because you will be obtaining that from auctioning.

MB Mahesh: This understanding is very right that if I add most of the slippages for wholesale traders, retail traders, and MSME I should be able to triangulate most of the stress which is sitting for restructuring ECGLS?

N Kamakodi: Since they constitute about 75%, 80% of my total loan book proportionately it will be there.

MB Mahesh: Just one clarification, you declared slippages on daily basis or you do it on month end basis?

N Kamakodi: We identify the account on daily basis. Reversal and others related thing will happen on a monthly basis.

MB Mahesh: From recognition standpoint how does that impact?

N Kamakodi: Recognition can happen only after this Supreme Court judgment. We have recognized overdue more than 90 days as on March 2021 as per IRAC norms.

MB Mahesh: That is understandable. One clarification there is one more option available for banks which is the working capital adjustments that you can do on the borrower that RBI has allowed that regulation will help you? RBI said that as one-time measure you can reassess for working capital requirement for borrower?

N Kamakodi: It happens because it was open and we did it even at the beginning of this, what you call I think if they are going to March 31 and they have not extended it suppose. So we did it at the beginning.

MB Mahesh: This is useful Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: Maybe my questions part of it is answered but just going back to the entire restructuring and that we obviously have the last 12-13 year of great history of making recovery out. RBI has not permitted to restructure MSME loans after March 2021. Secondly, I think let us say in Q2 last year, we had already disbursed around Rs.300 Crores one-year moratorium will be getting over sometime in Q1, Q2 so in aggregate while I understand we have already given a guidance of slippage but any additional color how you know those ECLGS accounts are performing and sort of tagging to Mahesh's question, we have already been done one set of restructuring and given the situation that we will be able to go and collect for another quarter or so, how much of additional restructuring do you think is needed in your case?

N Kamakodi: It depends on to what extend or how long this lockdown and all are going to exist, are going to happen and also what is going to be regulatory deadline if at all it comes in the future. I do not have a direct answer for your question, at this particular point of time.

Nilanjan Karfa: Suppose if the situation prevails for some more time, what will happen to asset quality?

N Kamakodi: Honestly speaking going with an expectation that this full lockdown will be getting released from another couple of weeks and I do not expect any further regulatory forbearance coming in as yet, suppose for example, these are all the fundamental assumptions with which I have given my expectation. Suppose for example once again let us say another three months of lockdown is extended which is pulling down overall things and nobody will be in a position to say anything about how things will come out if regulatory forbearance would not come.

Nilanjan Karfa: Right and just an additional question. Which sector actually barring hotels and tourism, which is fairly understandable, in your portfolio is most impacted?

N Kamakodi: It is in proportion to the overall exposure as I told slightly earlier.

Nilanjan Karfa: If you have to look at in FY2021?

N Kamakodi: These sectors including retail sales are the one which are now getting more impacted because of the lockdown. All other things and you will be having some impact because of their own inherent weakness or other financial issues if they have a problem.

Nilanjan Karfa: SMA2 is 5 Crores plus or the entire book?

N Kamakodi: Entire book.

Nilanjan Karfa: Thank you so much.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from Ambit Asset Management. Please go ahead.

Rahul Maheshwari: Good evening Sir. Sir, just a data on RWA numbers for FY2021. How that has panned because last four to five years which we look at the trend your RWA assets were increasing in terms of the risk, so how does the trajectory look for this year Sir?

N Kamakodi: Almost entire incremental advances for the current year came from gold loan and ECLGS scheme which is guaranteed by the government both have zero risk weight and hence you do not have any incremental RWA.

Rahul Maheshwari: This time, if it is possible can we get number if you have handy?

N Kamakodi: The total RWA for 31.03.2021 … Rs.30,126 cr

Rahul Maheshwari: Thank you so much.

Moderator: Thank you. The next question is from the line of Rajakumar V, individual investor. Please go ahead.

Rajakumar V: Sir first of all, I would like to thank you for all your detailed explanation. It is not only that we get to know about City Union Bank, but we also get first hand information about that overall banking industry. I want to thank you for all your detailed explanation. I have only one question. I want to know what is your effective tax rate? Because in the last year the tax rate is almost 19% and now you if you see it is 14% and this quarter have lower tax rate, so just want to know what is driving this given that your nominal tax rate is little high. So why is your tax rate very low?

N Kamakodi: We have moved to the new tax regime already and we have taken the deferred tax benefits from some of the items like standard assets provision, COVID provision, etc. and of course, if we reverse this provision, we have to make it to offer for tax at future date. So since these are all the provisions, we have already made, we have taken the benefits for that and made the tax provision based on that.

Rajakumar V: Okay and what is your guidance for 2021-2022 tax rate, you will be forecasting?

N Kamakodi: This is mainly based on how much deduction and other things which we will get to know only at the end of year.

Rajakumar V: So is it fair to take around 22%+ tax rate which is the nominal tax rate as per the new regime?

N Kamakodi: Definitely it will be in the same range whatever you say but how the adjustment happens between the operating profit into PBT and what are all deductions that we use that will depend upon that particular item or like what are all the developments that are happened during the course of the year.

Rajakumar V: Okay Sir understood. Thank you.

Moderator: Thank you. 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 joining this conference. I think to a greater extent whatever that is possible we have answered from our side. Any other specific data points or anything you want, you can always get in touch with Mr. Jayaraman, whose contact details are already given in the presentation. Stay safe. We are also trying our level best to be safe. In fact, I was tested COVID positive but since I had completed my vaccination, the impact of that was much less and I am completing quarantine today and tomorrow. So today is 14th day basically and as I told this year our comfort at this point of time is definitely much better than what comfort we had during the same time last year. I am not totally saying that we are still in milk and honey, definitely there will be impact but the final impact will definitely be a shade lower than whatever we saw in the last year and the impact we expect because the lockdown and all happening during first half of the year, the impact could be slightly higher during the first half than the second half. So with this we have shared many of our expectations. These expectations are shared with whatever we think true at this particular point of time with available information on that. We pray almighty that things to improve so that we could be able to achieve these figures in a much easier fashion. Once again, I thank you all for joining this call and thank you all.

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