Operator: Ladies and gentlemen, good day and welcome to the City Union Bank Limited Q1 FY27 earnings conference call hosted by Ambit Capital Private Limited. 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 call, 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. Vignan Sriya from Ambit Capital. Thank you and over to you, sir.

Vignan Sriya - Ambit Capital: Thank you, Nirav, and good evening everyone. On behalf of Ambit Capital, I would like to welcome you all to the Q1 FY27 earnings call of City Union Bank. We have along with us Mr. R. Vijayanand, MD and CEO, Mr. V. Ramesh, Executive Director, and Mr. J. Sadagopan, CFO. I will now hand over the call to Mr. R. Vijayanand, MD and CEO, for his opening remarks. Over to you, sir.

Management: Thanks, Vignan. Good evening everyone. I am joined by my Executive Director, Shri Ramesh, and CFO, J. Sadagopan, and other senior colleagues in this room. A hearty welcome to all of you for this conference call to discuss the unaudited financial results of City Union Bank for the first quarter of FY27. The Board approved the results today and I hope you all have received the copies of the results and the presentation.

Before we get into the results, it is truly a great honor and privilege to lead this 122-year-old franchise. I thank the Board, the regulator, and shareholders for approving my candidature. My sincere gratitude to my predecessor, Dr. N. Kamakodi, for his mentorship and for steadfastly supporting the smooth transition of leadership.

At this juncture, I want to congratulate our director, Professor V. Kamakoti, who was conferred with the prestigious Padma Shri award in recognition of his contribution to the nation. I hope you all have received the notice of the Annual General Meeting to be held on August 14, 2026, which will happen face-to-face at Kumbakonam and also through virtual mode. On behalf of the Board, I invite you all to participate in the AGM.

During the Q4 FY26 conference call, we stated our expectations for FY27. With respect to advances, we should be 2-3% over and above the credit growth of the industry. Our focus on MSME will remain the same. Gold loans and secured retail will be an additional enhancer, but the MSME proportion will continue to dominate. Our business through third parties, which is DSA, on an overall bank book level will reach only 1-2%. Our focus on secured products will continue for the year. Our long-term average numbers with respect to PAT, ROA, and NIM will hold good and we hope the positive momentum will continue. These were the discussions we had at the end of Q4. Largely, we are in line with the expectations conveyed in the last quarter call.

During the last financial year, we achieved double-digit credit growth in all four quarters. For Q1 FY27 as well, we have achieved 25% credit growth year-on-year, the highest credit growth rate in June to June comparisons. Our advances increased to 67,645 crores from 54,020 crores in Q1 FY26. As stated in our earlier calls, with improved efficiency levels aided by gold loan growth, coupled with our digital lending process, we have achieved consistent credit growth and we hope the current trend will continue.

Our deposits stood at 79,342 crores for Q1 FY27 as compared to 65,734 crores in Q1 FY26, registering a growth of 21%. As you all know, we always measure performance by average CASA, not by terminal deposits. The average CASA grew by 22% in Q1 FY27 to 20,062 crores compared to 16,478 crores in the corresponding period last year. Sequentially also, it has improved since Q1 FY26, which is five consecutive quarters of improvement.

Our CD ratio for this quarter is at 85%, which is the level we indicated in our last call as well. With respect to the benefit given by RBI on FCNR deposits, the bank has mobilized fresh deposits of 150 crores till now.

On the asset quality front, for the current quarter, the total slippages are around 195 crores, while the total recovery is 206 crores, consisting of 182 crores from live NPA and 24 crores from technically written-off accounts. The trend of recovery being more than slippages continues and we are confident of maintaining this for the current quarter as well.

Our gross NPA has reduced to 1.73% in Q1 FY27. Both gross NPA and net NPA in both percentage and absolute terms have been reducing quarter-by-quarter for the past 12 quarters continuously. When compared to Q1 FY26, the GNPA has reduced from 2.99% to 1.73%, which is almost a 126 bps reduction. Similarly, our net NPA has reduced to 405 crores, and the net NPA percentage is 0.61% in Q1 FY27, while the net NPA was at 1.2% in Q1 FY26, a reduction of 59 bps on a year-on-year basis. Overall, SMA 2 to total advances is less than 1%, and it has remained there for the past three quarters.

Based on our discussions with a cross-section of our borrowers from various industries, we observed that domestic consumption remained largely insulated from the impact of rate hikes. For Q1 FY27, the Provision Coverage Ratio (PCR) with technical write-offs stood at 85%, which has improved from 79% during the corresponding period last year. For the current quarter, PCR without technical write-offs has improved to 65% compared to 61% during the corresponding period last financial year. For the past eight quarters or so, we have steadily and continuously improved our PCR.

Our interest income has grown by 24% in Q1 FY27 and increased to 1,985 crores from 1,605 crores in Q1 FY26. Our yield on advances stood at 9.79% for the current quarter, which is equal to our Q4 FY26 level. On the cost side, our cost of deposits stood at 5.56%, which is marginally lower than 5.6% in the previous quarter, Q4 FY26, due to repricing benefits. Our NIM for Q1 FY27 stood at 3.78%. With term deposit rates on the verge of rising due to high demand, we expect the cost of deposits may slightly increase in the next few quarters, which will impact NIM levels by around 5 bps. Once the situation eases, it will come back to normal. Hence, we expect NIM to largely be in the range of 3.65% to 3.7% in the next few quarters.

During Q1 FY27, the bank invested around 700 crores in mutual funds, which generated an income of 12 crores. This income has been classified under other income. Consequently, the yield on investments has declined to 6.42% in Q1 FY27 from 6.61% in Q4 FY26. Had the mutual fund income been recognized under interest income instead of other income, the yield on investments would have been 6.67% rather than the reported figure for the current quarter.

Our operating profit has grown by 29% and stood at 581 crores compared to 451 crores in the corresponding period last year. By the way, this is the highest operating profit achieved by us. We have achieved a PAT growth of 25% and our PAT stood at 383 crores in Q1 FY27, which is again the highest in our bank's history, as against 306 crores in Q1 FY26. Our cost to income ratio for Q1 FY27 reduced to 45.42% from 46.15% in Q4 FY26. As we have discussed earlier, our cost to income ratio will be in the range of 47-48% for a few quarters. The ROA is in tune with our long-term average and was 1.57% in Q1 FY27 compared to 1.55% in the corresponding period last year.

To sum up, we have achieved consistent double-digit growth for the past two years. We will continue to explore various avenues for advances growth in addition to our core sector of MSME. We are very cautious in improving our credit growth through only secured lending while venturing into other avenues to achieve credit growth of at least 2-3% over and above that of the industry. Our deposit growth is aligning with our credit growth, which is helping us maintain the desired CD ratio. We expect NIM to hover around 3.65% to 3.7%. ROA is expected to be at our current level of 1.55% plus. Our PAT growth will continue with business growth and better asset quality. Our cost to income ratio will remain in the range of 47-48% for FY27. Thank you. We will now open the floor for questions.

Operator: Thank you very much. We will now begin with the question and answer session. First question is from the line of Parth Gupta from 361 Capital. Please go ahead.

Parth Gupta - 361 Capital: Thanks for the opportunity. My first question is slightly longer term. If I look at the next few years, what will be the levers for NIM? If I look at longer term, FY27 or FY28, what will be the levers for margin improvement? What I am seeing is that yields on the lending side are somewhat stagnant or not improving materially. Is it right to say that the only lever for margin expansion is the cost of funds, or how are you looking at it?

Management: Broadly, we focus on MSME and gold loans. We are maintaining a decent rate on gold loans, which will continue to give the returns as expected. Retail is also picking up nicely for us in secured lending. To explain the yields broadly, in the gold loan space, we are at around 10% to 10.5% for agriculture and 11% to 11.5% for non-agriculture. We are at 9.6% to 9.7% in our LAP book in retail, and we are around 9.3% to 9.4% in MSME. We are confident of maintaining this. Traditionally, you would be aware that we are not the highest payers in deposits, so we will maintain the same cost of funds in terms of deposits as well. Hence, this trend should continue and more or less we should be in the 3.7% to 3.75% range in the long term.

Parth Gupta - 361 Capital: What led to the increase in cost of funds for this quarter?

Management: Our cost of deposits actually came down due to better repricing, but the overall borrowing cost increased. Our interest paid on borrowings increased from 72 crores to 94 crores.

Parth Gupta - 361 Capital: So that is primarily because of the borrowing cost?

Management: Right.

Operator: Thank you. Next question is from the line of Sudarshan K from Hightech Capital. Please go ahead.

Sudarshan K – Hightech Capital: Congratulations on a good set of numbers. My first question is on gold loans. As everyone is expanding and taking market share in the gold loan segment, how do you see the competition going forward? What is the strategy to continue growth in this segment?

Management: Competition is present in all spaces, not necessarily just on gold loans. Every firm, whether a bank or an NBFC, typically has its own customer base. We are predominantly branch-driven and we get customers who walk into the branch to pledge and transact. We are at 31% as we speak today and we expect it to be in the same range of 31-32%. We do not expect it to go much higher, and we do not see a major threat to gold loans from competition at this juncture.

Sudarshan K – Hightech Capital: My second question is on MSME. Currently, the system MSME growth is quite strong, but we are growing at around 15%. What are the reasons for this 15% growth? Is it going to continue in this range, or is there a specific reason?

Management: The market and consumption are good. Funding is also a function of asset quality, and improved asset quality has benefited us. Even in MSME, the bank receives about 900 crores in repayments per month, so every quarter we see about 2,700 crores in repayments. In spite of that, we could move this engine faster based on consumption, the market, and asset quality. We envision this to grow 2-3% more than the system growth.

Sudarshan K – Hightech Capital: System-level MSME is growing faster, I think more than 20%, but our book is growing at 15%. Are you being cautious regarding asset quality or lending?

Management: We have always been cautious on lending. There are a couple of major reasons for the 15% growth. One is the 900 crores of repayment per month. Most importantly, in this quarter, the utilization levels have dropped. Our utilization used to be 73% on average, but this has come down to 70%. We are also slightly cautious on pricing right now. I think the combination of these three factors explains the figure. It is not necessarily a drop, considering our high repayments and pricing consciousness. We are fairly poised for good growth.

Operator: Thank you. Next question is from the line of Kunal Minas from Princent Capital. Please go ahead.

Kunal Minas – Princent Capital: Congratulations on the numbers. My first question was regarding the credit cost and slippage numbers. Given the industry is going through a period where MSME segments are showing some stress but gold loans have few write-offs, what numbers should we be comfortable with for slippages and credit cost guidance over a one to two-year perspective?

Management: At a steady state, credit cost should be around 0.4%. That is the number we see once it stabilizes, and we do not envision it going up. Regarding slippages, recovery continues to be more than slippages, which has been the case for the last 10 quarters. We expect this to continue for the current quarter as well. Our slippages for the year would be in the range of 700 to 750 crores, which is consistent with what we discussed last year.

Kunal Minas – Princent Capital: So for a one to two-year guidance, the credit cost would be around 0.4% and the slippage percentage would be around 1.2% to 1.3%?

Management: Yes, you are broadly right on those numbers.

Operator: Thank you. Next question is from the line of Jain Karote from Axis Capital. Please go ahead.

Jain Karote – Axis Capital: You have guided for growth of about 200 to 300 basis points above the system. If the mix between gold and non-gold remains intact, MSME needs to grow much higher, closer to 18-20%, which is not happening right now. How do you plan to catch up? Also, outside of gold, how do you ensure the mix doesn't change as you achieve your growth target?

Management: We have three major sets of products: MSME, gold loans, and retail. As stated previously, gold loans will be in the 31-32% range, MSME around 55-60%, and the remaining 10% will be secured retail. We aren't changing the goalposts significantly. If our utilization levels had remained at 73-74%, our MSME growth would have been 2-3% higher. Utilization is a function of business needs and how much customers are drawing down. Regarding MSME growth, we will not hesitate to grow as long as asset quality remains fantastic. We are confident that MSME growth will be 2-3% higher than the system growth.

Jain Karote – Axis Capital: You front-loaded your branch rollouts this year and opex growth is healthy at 15.5%. How should we think about opex for the rest of the year? Regarding the ROA guidance of 1.55% to 1.65%, is there anything we are missing?

Management: As you said, the branch openings are largely done. However, our staff salary hikes take effect from July. We expect costs to move up, which is why we guide for a cost-to-income ratio in the range of 47%. We are currently at 45.3%. Regarding ROA, we wanted to be realistic. We are looking at an exit ROA of 1.6% to 1.65%. My other income should also comfortably move up. In Q4 of last year, other income was close to 300 crores, and this quarter we are at 243 crores. If we replicate last year's performance and secured retail picks up, an ROA of 1.65% is visible.

Jain Karote – Axis Capital: So the exit ROA is 1.65%, and the full-year expectation is 1.55% to 1.6%?

Management: Between 1.55% and 1.65% for the year.

Operator: Thank you. Next question is from the line of Aman from ICICI Securities. Please go ahead.

Aman – ICICI Securities: Our cost of funds has been up this quarter despite moderation in the cost of deposits. Can you explain that, and what was the borrowing cost?

Management: That is mainly because of other borrowings and the refinance we availed. The Q4 cost was around 72 crores, which increased to 94 crores during Q1.

Aman – ICICI Securities: Could you spell out the treasury gains during the quarter?

Management: The total treasury gains were around 52 crores for the current quarter. In Q4, it was 29 crores.

Operator: Thank you. Next question is from the line of Utkarsh from DAM Capital Advisors. Please go ahead.

Utkarsh – DAM Capital Advisors: Congratulations on a great set of numbers. Have you participated in the ECLGS scheme? How much have you sanctioned and disbursed?

Management: Yes, we have participated. As of the last quarter, it was 200 crores, and as of today, we are at 800 crores. It is progressing well.

Utkarsh – DAM Capital Advisors: How much of the portfolio would be eligible for this?

Management: We expect the total from this scheme to be in the range of 2,000 to 2,500 crores. Eligible customers will be entitled based on merit.

Utkarsh – DAM Capital Advisors: On the SME side, the SMA 2 levels have been at 1% for multiple quarters. Is there any particular trend regarding rising stress, especially given the West Asia crisis?

Management: The West Asia crisis has not been a major issue for us so far. The ECLGS came at the right time. I have met multiple customers in this space, and most have not shown any stress. It was mainly the working capital cycle where ECLGS helped them return to normal. Our percentage of SMA 2 to advances is less than 1%, and SMA 0 and SMA 1 are also at their lowest levels quarter-on-quarter. We have not seen much stress.

Utkarsh – DAM Capital Advisors: You mentioned utilization levels dropped this quarter. Why would they drop if demand is strong and interest rates are high?

Management: Utilization is a function of business requirements. If a customer is conscious of how they utilize funds, then from a credit perspective, it is a comfortable sign. Typically, when the market is very good, utilization can be as high as 75-80%. For industries with lower margins, it might be around 60%. We do not see this drop as an issue. As a primary banker, we monitor where the money is going. If we understand the customer's cash flows, we feel more comfortable.

Utkarsh – DAM Capital Advisors: The fee income this quarter looks slightly lower, representing 15% year-on-year growth. What will be the drivers for this to grow?

Management: We expect it to catch up. The factors contributing to other income would be recoveries from technically written-off accounts and insurance income. Recoveries are a function of what we collect from write-offs, and property recoveries depend on business disbursements. Revenue income should also scale up. Last year we started with a similar number and scaled it to nearly 400 crores. We are confident we can do that again.

Operator: Thank you. Next question is from the line of Punith Bahlani from Dollar Capital. Please go ahead.

Punith Bahlani – Dollar Capital: Regarding the yield, it looks like the increase is driven by gold loans because portfolio yields there are higher. Some peers highlighted they had to cut yields due to competition. Have you cut any yields in your gold loan portfolio?

Management: We haven't changed any interest rates for gold loans. We are at the same rate and continue to maintain it.

Punith Bahlani – Dollar Capital: Regarding utilization levels, could competition be a reason they are dropping? Other peers indicate working capital utilization is going up. Also, what is the disbursement growth?

Management: Competition is not likely to be the reason for utilization drops when you are the primary banker for the majority of the book. Utilization is a function of business needs. Some business segments were cautious in Q1, but there is enthusiasm regarding the future, specifically because of the trade agreement signed between India and Europe affecting the textile space in Tirupur. We are confident utilization will go up. Regarding disbursements, our average MSME disbursement is around 3,500 crores per quarter. We can send you the exact year-on-year comparisons separately.

Punith Bahlani – Dollar Capital: Are you planning to make ECL provisions throughout the year?

Management: We are a completely secured player. Our assessment shows that we need about 0.45% of the loan book for ECL, which should not disturb us much given our high capital adequacy ratio. The capital consumption would only be about 0.6% to 0.65% from the capital adequacy. We do not have anything to worry about at this juncture.

Operator: Thank you. Next question is from the line of Jay Mundhra from ICICI Securities. Please go ahead.

Jay Mundhra – ICICI Securities: Is Dr. Kamakodi associated with the bank in any form? Did he apply to become a non-executive director?

Management: Dr. Kamakodi continues to be a good friend. He continues to head our CSR foundation. With respect to a non-executive director role, I haven't asked him about his plans yet, but I will check and get back to you.

Jay Mundhra – ICICI Securities: Could you quantify the SMA 0, 1, and 2 numbers?

Management: We are at 1.2% for SMA 0, 0.7% for SMA 1, and 0.9% for SMA 2. This has been coming down consistently. We were at 7.12% in June 2025, and now we are at 2.8% total. That is the kind of asset quality built over the year.

Jay Mundhra – ICICI Securities: If you were at 7% last year, and now you are lower, the ECL capital requirement assessment of 65 basis points reflects this better asset quality?

Management: Exactly. Our assessment has dropped by about 50 crores. If we had simulated this a year ago, the requirement would have been 150-180 crores more, and our capital drop would have been nearly 1%. We have benefited from the improved asset quality.

Jay Mundhra – ICICI Securities: Could you increase the gold loan pricing by 100 basis points to calibrate growth?

Management: It is possible, but in the agricultural sector, we are there for genuine needs, helping farmers after harvesting. We do not want to burden them. For non-agricultural loans, we lend at around 11%. We don't want to go overboard. We might look at a 10-20 bps change if required, but we won't do it just for the sake of it.

Jay Mundhra – ICICI Securities: How do you benchmark the per gram limit for gold? Is it a daily changing rate?

Management: We don't change it daily. We look at the price movement for at least a month before changing the per gram lending rate. At the current market price, our average LTV is 62.07%. If prices rise for two to three weeks, we might increase the rate. In terms of price drops, we are cautious. To answer your question on LTV, at a 5% drop in gold prices, we would be at 65% LTV. At a 10% drop, we would be at 69%. At a 15% drop, we would be at 73%, and at a 20% drop, we would be at 78% LTV. We are comfortable with these levels.

Operator: Thank you. Next question is from the line of Pust Jain from Ambit Capital. Please go ahead.

Pust Jain – Ambit Capital: The large industry book shows a sequential surge. What can that be attributed to?

Management: We classify this as a large industry when the turnover is 750 crores and above. It fluctuated previously due to pricing—some customers exited because of yield pressure when we would not reduce rates. The current surge is a function of both utilization levels and new disbursements.

Pust Jain – Ambit Capital: How do you see the cost of deposits and funds going forward?

Management: Cost of deposits moderated to 5.56% from 5.6% in Q4. Going forward, it may be in the range of 5.6% to 5.7%. The borrowing costs are likely to remain around the 94 crore level for the next two quarters.

Operator: Thank you. Next question is from the line of Akhilesh from Nirmal Bang. Please go ahead.

Akhilesh – Nirmal Bang: In the agri gold loan segment, is the LTV similar to the overall LTV?

Management: The agricultural LTV will be about 5% higher than the non-agricultural LTV.

Akhilesh – Nirmal Bang: Regarding our aspiration to grow ahead of the system, how much potential do we have for positive operating leverage?

Management: Our aspiration for the cost-to-income ratio is to be less than 45% in the long term. We are working toward that and hope to reach it.

Akhilesh – Nirmal Bang: What was the average LCR for the quarter?

Management: We are at 150.

Operator: Thank you. Next question is from the line of Param Subramanian from InvesTech India. Please go ahead.

Param Subramanian – InvesTech India: Many Tamil Nadu-based lenders are doing well on growth and margins. In the MSME and industry space, what drivers are causing such optimism? Are you seeing specifically auto parts or semiconductors driving this?

Management: It is not only in Tamil Nadu; everywhere we operate is looking decent. Textiles in Tirupur have very positive momentum. In the Sriperumbudur area, there is a large automobile space where we have a lot of room to grow our share. We are positive on consumption. Paper industries in Kaniyampalayam and Palladam, including corrugated boxes, are also in good shape. Hopefully, this trend continues.

Param Subramanian – InvesTech India: Do you expect the trend of recoveries exceeding slippages to continue?

Management: We have achieved this for the current quarter, and we hope it continues.

Operator: Thank you. As there are no further questions, I will now hand the conference over to Mr. R. Vijayanand, MD and CEO, for closing comments.

Management: Thanks a lot. Broadly, our deposit growth is aligning with our credit growth, which is helping us maintain LDR levels in the desired range. We expect NIM to be in the range of 3.65% to 3.7%. Our ROA is expected to remain consistent with current levels. We intend to continue our business growth with better asset quality and maintain our cost-to-income ratio at the desired level. We have invested significantly in automation and AI in our operations, which should help bring costs down further. We would like to maintain this momentum. Thank you to everyone.

Operator: Thank you very much. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.