



“City Union Bank Limited 2Q & 1H FY26 Earnings Conference Call”

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MODERATOR: **MR. JIGNESH SHIAL – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to City Union Bank Limited 2Q and 1H FY26 Earnings Conference Call.

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 to Mr. Jignesh Shial. Thank you. And over to you, sir.

Jignesh Shial: Thank you, Bhoomika. And good evening, everyone. On behalf of Ambit Capital, I would like to thank the Management of City Union Bank for allowing us the opportunity to host this 2QFY26 and 1HFY26 Earnings Call.

We have with us Dr. N. Kamakodi – MD & CEO; Mr. R. Vijay Anandh – Executive Director; Mr. V. Ramesh – Executive Director; and Mr. J. Sadagopan – CFO.

I will now hand over the call to Dr. N. Kamakodi, MD & CEO of City Union Bank, for his opening remarks. Over to you, sir.

Dr. N. Kamakodi: Good evening, everyone. Hearty welcome to all of you for this Conference Call to discuss the Unaudited Financial Results of our City Union Bank for the 2nd Quarter and Half Year Ended 30th September 2025. The board approved the Results today, and I hope all of you have received the copies of the Results and Presentation.

As you may recall, our Bank had celebrated our 120 years of “Swadeshi Banking Legacy” on 2nd September 2025 in the august presence of the Honorable President of India and the Honorable Finance Minister. The function also had the gracious presence of the Honorable Governor of Tamil Nadu and the Honorable Minister of Tamil Nadu. I take this opportunity to thank all our customers, dignitaries, stakeholders, and all who have devoted their valuable time to attend this function and make this function a grand success. The speech of the Honorable President of India is published on the official website of Rashtrapati Bhavan, and the link is provided in our Investor Presentation. Also, a link to our video recording of the function is given in the presentation.

As you may have also observed, Bank celebrated its 122nd Foundation Day on Friday, 31st October. And as you all know, the Bank received the Certificate of Registration on 31st October 1904, which is celebrated as the Foundation Day.

With these opening remarks, I hand over the mic to E.D. Shri Vijay Anandh to take the discussions further.

R. Vijay Anandh: Thanks a lot, sir. Good evening.

During the last con call, we shared with you our expectations for the current financial year as below:

- With our best efforts, we have accelerated the growth to mid-teens. We will continue to explore various avenues of advanced growth in addition to our core strength of MSME.
- With a growth engine up and running, we could see visibility in achieving mid-teen growth at least 2-3% over and above the industry.
- Our deposit growth is also back on track and aligning with credit growth. We were expecting the NIM in the range of 3.5%.
- ROA to be expected in the range of the current level of 1.5%. We will achieve our PAT growth with the help of better asset quality, and our cost-to-income ratio will be in the range of 48 to 50. These were the expectations that we shared.

For the current quarter, half a year ended, our performance is in tune with our expectations. And in some parameters, we have exceeded our expectations.

We have registered 18% advance growth in Q2 FY'26 year-on-year. And our advance increased to INR 57,561 crores from INR 48,722 crores in Q2 FY'25. The positive momentum in growth achieved during the start of FY '24-'25 had geared up, and we have achieved double-digit credit growth in all four quarters of FY '25 and also up to H1 FY '26. In Q2 alone, our advances had grown by over 3,500 crores, which is close to 7% in a single quarter. Also, the growth of 18% is the highest credit growth achieved in Q2 in the past decade. Our secured Retail portfolio is also growing in a steady manner, and this will improve the credit growth along with our core MSME going forward.

Deposits

Our deposits have grown by 21% and stood at INR 69,486 crores for Q2 FY '26 as compared to INR 57,369 crores in Q2 FY '25. Our deposit had increased by INR 3,700 crores or 6% growth sequentially. Our average CD ratio for Q2 FY'26 stood at 83%. The cost of percentage to total deposit increased marginally to 28% from 27% in first quarter.

Asset quality

On the asset quality front, as we had stated earlier, the trend of recoveries over and above slippages is continuing. For Q2 FY'26, the total slippage is INR 156 crores, while the total recovery is INR 303 crores, consisting of INR 250 crores from live NPA accounts and INR 53 crores from technically written off accounts, resulting in negative credit costs.

Our gross NPA percentage had reduced to 2.42% in Q2 FY '26 from 2.99% in Q1 FY '26. Both gross NPA and net NPA, that is, in both percentage and absolute terms, are reducing quarter-by-quarter for the last 10 quarters continuously.

When compared to Q2 FY'25, the GNPA has reduced from 3.54% which is a 112 bps reduction. Similarly, our net NPA number had reduced to Rs.513 crores And net NPA percentage is now at 0.90% in Q2 FY '26 as compared to 1.62% and the reduction is 72 bps year-on-year. Net NPA has come below 1% after 46 quarters. It was 0.89% in Q3 of FY 2014.

Our overall SMA, including SMA0, 1 and 2 put together, used to be in double digit in the earlier past. But the numbers started decreasing starting from Q2 FY'24. In our Q3 FY'25 con-call, we had stated that it had come down to single-digit numbers. For the current quarter, the total SMA numbers stood around 5.60%, showing significant improvement.

Our slippage numbers have also shown substantial improvement since last financial year, and it has reduced in the current quarter as well. Overall, SMA2 to total advance stands at 1.34% in Q2 FY'26 as against 1.59% in Q1 FY'26. In the corresponding period last year, i.e., Q2 FY'25, it was at 2.03%.

In our last con-call, we also stated that we do not foresee any sudden spike in stress despite the uncertainty among multiple financial institutions on the asset quality front in the background of U.S. tariffs. We want to reiterate that our exposure to U.S. exports is around INR 154 crores, covering textile, food processing, gems and jewelry, and metal industries, etc., which are the major exporting industries to the U.S.

The exposure to U.S. exports is 0.27% of our loan book, and hence, we do not foresee any material impact on the asset quality due to U.S. tariffs. Of this, the textile segment is a major exporter to the U.S., and the exposure towards the U.S. is around 0.12% of our loan book. Our discussion with these customers gives us enough confidence that there is no significant threat to the account since they are pursuing other countries.

PCR

For Q2 FY'26, PCR with TW stood at 82% which has improved from 75% last year. From Q1 FY'25, we had been increasing our PCR without TW to bring it closer to the industry levels. Hence, PCR without technical write-off had improved to 63% which had improved from 55% last year.

Interest Income

Our interest income had grown by 15% in Q2 FY'26 and increased to INR 1,653 crores from INR 1,434 crores in Q2 FY'25. Our yield on advances reduced from 9.81% in Q1 FY'26 to 9.66% in Q2 FY'26, which is 15 bps. For H1 FY '26, the same is 9.73% as against 9.70% in the similar period last year.

On the other side, the cost of deposits has reduced by 24 bps sequentially, which is much higher than the anticipated level of 10 bps to 12 bps. Thus, our NIM has increased from 3.54% in Q1 FY'26 to 3.63% in Q2 FY'26. Even though we had an expected NIM level of 3.45% to 3.5% for

Q2, faster repricing of deposits and migration to fixed rate of gold loans have resulted in a stable NIM. Also, some of the high-cost refinance borrowings matured and were repriced at a lower cost. During Q3 and Q4, we expect a stable NIM with positive bias.

Other income

The total other income for the year has increased by 20% from INR 418 crores in H1 FY'25 to INR 503 crores in H1 FY'26. Loan processing charges, suit recoveries, income from treasury and insurance commission are the major contributors to other income growth. For the current quarter, we also had interest from the IT refund.

Our operating profit had grown by 15% in H1 FY'26, or stood at INR 922 crores, compared to INR 802 crores in the corresponding period last year. The total PAT for H1 FY '26 is INR 635 crores as against INR 550 crores in the H1 FY '25, showing 15% growth. For Q2 FY '26, PAT stood at INR 329, as against INR 285 crores in Q2 FY '25, which works out to 15% growth.

Cost-to-income

Our cost-to-income ratio for Q2 FY'26 stood at 49.16% as compared to 48.12% in Q1 FY'26. For H1 FY '26, it stood at 48.66% as against 48.15% for H1 FY '25. We expect the cost-to-income ratio to hover around 48% to 50% for Financial Year '26 as per our earlier communication.

ROA

Our ROA for Q2 FY'26 is at 1.59% compared to 1.55% in the last quarter. ROA is over and above our long-term level of 1.5% since Q1 FY'25, and it is very stable. Our Bank has secured a commitment of USD 50 million from IFC. It is a three-year term loan with a bullet repayment option. The proceeds shall be used to support MSMEs in their efforts to transition to energy-efficient and cost-effective solutions, primarily in the renewable energy space, which is solar or wind. With this, we take part to support India's efforts to accelerate the transition to carbon net zero by 2070.

During the current year, we have financed more than INR 500 crores so far, and expect to build a book of renewable energy by INR 2,500 crores in the next 24 to 30 months. This strategic partnership with IFC shall help us to focus on our sustainable finance efforts.

To sum up:

Our continued efforts so far have helped us to achieve consistent double-digit growth for the past six quarters. In addition to our core strength of MSME gold loans, we will be venturing into new avenues to keep the momentum in growth. We are confident that we will surpass the industry-level growth in the future.

Our deposit growth is aligning with credit growth, and it is expected to continue. CRR cut is giving a positive impact, and we are expecting some positive bias in the NIM during Q3 and Q4. ROA is expected to remain at our current level of (+1.5). Our cost-to-income ratio remains in the range of 48% to 50% for FY '26.

Thanks a lot. Open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Parth Gutka from B&K Securities. Please go ahead.

Parth Gutka: So, you were mentioning that you are entering into new areas like renewable energy, where we are creating a book of INR 2,500 crores. What are the factors we are considering while underwriting these loans? Are all these loans secured or unsecured in nature? That was my first question.

Second, what was the differential? You also mentioned that some of the borrowings matured during the quarter. What was the rate of interest? These are my two questions.

R. Vijay Anandh: The second question is not clear. You got dropped in between. If you can just repeat your second question, please.

Parth Gutka: So, I was mentioning that certain parts of the borrowings were matured during the quarter. What was the rate of interest on those borrowings?

R. Vijay Anandh: To answer the first question, it is not a new area. We have been funding solar. That is why we mentioned in the call that we have financed more than INR 500 crores, which is a completely secured book for the existing Bank customers. And we continue to build this book. And that is what we mentioned. We plan to take this book from INR 500 crores to INR 2,500 crores, mainly for existing customers, in the next 30-month period, which is 2.5 years from now.

With respect to the second question, our INR 800 crores of borrowings have come down from 8% to 6.5%.

Moderator: The next question comes from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, I just wanted to understand the credit growth that we are seeing. Which segment is this coming from, and how are we originating these loans?

R. Vijay Anandh: These are completely branch distributions. As you are aware, we don't use third parties for our MSME sourcing. It is completely branch-driven, and JL is also completely branch-driven. With respect to Retail, we have 10% sourcing from third party and 90% is completely branch driven. So, to answer your question, only part of Retail, which is 10% is from the third party.

Rohan Mandora: And in terms of where the customers are getting on board in the SME space, like where are you, are these all takeovers from other banks, or is this organic growth which is coming in terms of higher credit demand from existing customers? How should one look at it?

R. Vijay Anandh: It is a mix of both, sir.

Rohan Mandora: And sir, just on the recoveries, we have been showing a negative net slippage consistently for the past many quarters. What is the outlook in terms of being able to maintain this kind of run rate for the next few quarters?

R. Vijay Anandh: We were thinking till Q2, but it looks like we might get into Q3 and Q4 as well.

Rohan Mandora: So, this year, the second half, we should again see negative net slippage.

R. Vijay Anandh: Yes.

Rohan Mandora: And sir, if you can, then in that backdrop, guide us, like, with the ECL, you have made some ECL provisions this quarter. So, what changes in terms of your credit cost outlook for the next year because you started making some ECL provisions? So, how should one look at the steady-state run rate on credit cost after you move and migrate to ECL? And any assessment on the one-time impact?

R. Vijay Anandh: You are asking about the provisioning, what we are going to make in the next year. So, okay, let me give you a brief on ECL then. Just give us a couple of minutes. So, I will try to give our perspective. We are getting ourselves prepared for ECL computations. We made certain broader assumptions. And we have just tried to do the back-of-the-envelope calculations. So, unless we get specific guidelines in the final circular, most of the calculations are still in the fluid stage.

For example, at the same time last year, we had a double-digit SMA. We have seen a 50% reduction in SMA stock. The impact of the reduction in SMA contributes to a huge reduction in ECL provisions. Even the reduction of SMA from Q1 to Q2 resulted in a substantial reduction of ECL provisioning requirements.

So, let me go stage by stage as well to the ECL draft guidelines. Just to outline the very, very broad assumptions, again, at the back-of-the-envelope calculation we made. We have done this with the principle that approximately right is better than accurately wrong. So, let's start with Stage 3, which is the NPA bucket as per current IRAC norms. When we look at this bucket, we don't see any significant difference in the additional provisioning requirement as of today. This is on Stage 3.

With respect to Stage-2, which is mainly of SMA1 and SMA2, the restructured loans and un-availed in these respective buckets of SMA1 and 2. If we look at our trend on both SMA and restructured portions, we are witnessing a significant fall in our SMA numbers. Number one.

Number two, our restructured book has come down significantly over the past few years. Just to give you a background, it was around INR 2,248 crores in FY '21-'22. We are down to INR 593 crores as we speak today. Accordingly, our expectation is that the restructured book would be negligible when ECL comes into force. This is on Stage 2.

So, for Stage 2, currently we hold a provision of INR 100 crores as per IRAC norms. When we adopt the model of PD-LGD as per ECL guidelines, we envisage some incremental provision that would be required for this bucket.

With respect to Stage-1, it is majorly standard assets. As per the current IRAC, provisioning requirement varies from 0.25% to 1%. But the new ECL has a floor for this bucket. For the Stage-1 standard assets, the Bank has the IRAC provision requirement of 48 bps, and if we adopt the ECL calculation towards Stage-1 assets, we might require 10 to 20 bps additional provision by taking into consideration the new ECL norms, where we need to make a provision for the bucket, which is mainly for unavailed portion as well as non-funded items.

Also, as per ECL, standard asset provisioning will be based on the PD-LGD model. Due to the above, we will have some impact on the provisioning. But if you look at our last 10-year slippage and credit cost, the average credit cost is around 114 bps. So, technically, if you see the recovery from technical write-off pool, it comes down to 80 bps since our historical recovery rate is in the range of 60% to 70%. Again, sir, this is broadly at the back-of-the-envelope calculation. And the exact number will be ascertained only after the final guidelines come into place.

Rohan Mandora:

This was helpful.

Moderator:

The next question comes from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama:

Sir, first, I mean, you had a margin expansion during this quarter. I think there was some non-core part as well because the future margins have expanded. What is that contribution in terms of margin expansion, if you can explain?

R. Vijay Anandh:

One is the deposit rate coming down. So, the cost of deposit has come down from 5.95 to 5.71. This is first, sir.

Anand Dama:

I think you had talked about some interest in IT refund, and I think your investments that is also coming on the high side.

R. Vijay Anandh:

That is in other income. Almost the same. We had H1 last year, INR 35 crores. Again, this year, INR 33 crores.

Anand Dama:

So, there is no other extra interest income during this quarter, because of which margin expansion has happened. Is that the right understanding then?

R. Vijay Anandh:

Right.

- Anand Dama:** So, which means that your margin expansion could sustain because I think you guided that your margins could be upwards of 3.5%, right, here on?
- R. Vijay Anandh:** Exactly right. Bang on.
- Anand Dama:** So, that is great to hear. And sir, secondly, in terms of credit costs, is it possible for you to guide now? Because you said that the net slippages are in a negative zone. And you expect that to continue at least for the next 2 to 3 quarters.
- R. Vijay Anandh:** Next 2 quarters, we envisage recoveries to surpass slippages.
- Anand Dama:** So, in that case, how should we look at credit costs for FY'26 '26 and also, if you can just talk about a broader outlook on the credit growth?
- R. Vijay Anandh:** Credit growth, as we said before, we would be 2% more than industry growth. So, we want to stick to that. In terms of credit cost, it will be stable.
- Dr. N. Kamakodi:** See, it depends upon how we want to have the net NPA and all. It will be a comprehensive call. So, the only thing that we have a clear-cut visibility on is that we will be having our recoveries more than the slippages, as we have seen in many quarters. So, that trend could continue for a few more quarters. How much we provide, what is going to be our target net NPA, all these things we will be taking a call as and when it comes.
- Anand Dama:** That's helpful, sir.
- Moderator:** The next question comes from the line of Jai Mundhra from I-Sec. Please go ahead.
- Jai Mundhra:** Sir, first question is, in the net interest income, do we have any component of recovery, NPA recovery that goes into NII?
- R. Vijay Anandh:** Yes, INR 15 crores.
- Jai Mundhra:** In this quarter, right? And why would that come, sir? I mean, INR 15 crores, where you have recovered more than the principal, or how does it work?
- R. Vijay Anandh:** Hang on, more than the past.
- Jai Mundhra:** And how much was this, sir, last quarter? Because I mean, we have a very good recovery this quarter.
- R. Vijay Anandh:** It was half of that, almost.
- Jai Mundhra:** So, around INR 7.5 crores.
- R. Vijay Anandh:** To be precise, I think it was INR 7 crores. And this quarter, it is INR 15 crores.

- Jai Mundhra:** Secondly, sir, when you know, I mean, you are doing very well on growth. On the spread basis, right, I mean, you would have declined. I mean, the entire repo rate cut would have been affected. But have you also changed the spread in any of the segments because the underlying growth is strong? So, you may have some discretion or bargaining power to increase the spread. Is there anything?
- R. Vijay Anandh:** So, we have a gold loan at 30% fixed rate. That is the only component here. Everything is a variable.
- Jai Mundhra:** No, I am saying, sir, gold loan is fixed rate anyway. So, that does not get impacted by the interest rate. But are there any products where you have managed to increase the spread also?
- R. Vijay Anandh:** No, no. Last year, we increased the gold rate, GL rate, right? That is one of the things that we did. Otherwise, there is going to be no change this year. We continue to do where we are.
- Dr. N. Kamakodi:** See, Mundhra, if you look into regulatory announcements where even in the last policy changes, how much reduction in the rate happened, and how much got passed, and all was given for the industry level. And our numbers are also by and large matching.
- So, in that, there are two things. One, not only that from last year, that 30% gold loan became a fixed rate. In fact, we also had a marginal increase in that portfolio, which has helped us to maintain the margin to a greater extent.
- Just to answer your question directly, whatever margin you have seen now is basically that we could manage both cost and also by the proper repricing. Because, as Vijay Anandh earlier told, the term deposits which are maturing currently are at 8.1. So, when they get repriced at 6.75% and maybe 7% for the senior citizen, for that portion, we get a good cushion. And the fixed rate gold loans also give that cushion, and that is why we were able to not only maintain the previous quarter net interest margin, but also we could have about 5%-6% basis points. These variations in the interest recovery from the, what you call, NPA, will vary.
- Like last year, like I said, last quarter it was INR 7 crore, INR 8 crore, and this time INR 15 crore. It depends on things. There is nothing lumpy or anything that has happened here. It is very difficult to predict beyond that.
- Jai Mundhra:** No, I was just thinking, sir, that now it looks like the trade-off between growth and margin is very negligible, right? I mean, you can do both growth and margin. So, I was just thinking, are there any products?
- Dr. N. Kamakodi:** Don't take this extrapolation immediately. Maybe after you see this trend firming up for the next few quarters, you can probably make that assessment. Already, we are getting enough pressure from the field saying that agricultural gold loan should be slightly decreased. We are not compromising. All such noises from the field are there, which at least has given us some elbow room that, let's say, we can make this fine-tune properly. So, once again, as we have been

maintaining always, the current rate plus or minus 10 basis points with positive bias will continue.

Jai Mundhra: And if you can specify what your yield is on gold loans in Retail and agri? And I think you had increased by 25 basis points, right, if I remember correctly?

Dr. N. Kamakodi: Yes, we had, I mean, our non-agri gold loan yield is about 11%. And the agricultural gold loan is about 10% and you have one or two products there getting reduced to 9.75% or 9.95% or something like that, below 10. So, by and large, things are stabilizing.

Jai Mundhra: And sir, have you also launched any new product on the gold loan side since the LTV has been liberalized, or do you intend to do so after April 1st, or how is it?

R. Vijay Anandh: No, we haven't launched any new products. It's the same. Anyway, the new rules are from 26th April. So, we haven't launched any new products, and it is as it is.

Jai Mundhra: And last question, sir, to Kamakodi sir. I mean, on your transition, sir, where are we? I mean, we saw the advertisement in the newspaper also, but has the process been completed, and by what time would the name go to RBI? If you can share a rough timeline?

Dr. N. Kamakodi: See, the last date that is given in the advertisement for the receipt of the application form is on, 7th, that is this Friday. So, after that compilation of eligible candidates, the Board will sit for the shortlist, and then the interview process will start. So, as per the existing guidelines in place, the application should reach the regulator at least four months before the expiry of the term, which is why we have to send it to the RBI before 31st December. If everything goes well, we should be in a position to send by say at least mid-December, on the 4th or 5th of December.

Jai Mundhra: Earlier, sir, for a change of MD, CEO, because there will be a new person, earlier the timeline was 6 months, right? Or that is, like it has become four months, or how is it? Earlier, I was under the impression--

Dr. N. Kamakodi: As per the existing guideline, it is four months. For reappointment, it is six months.

Jai Mundhra: Oh, okay. So, the new person, actually, RBI is supposed to take less time, isn't it, for the new person?

Dr. N. Kamakodi: Yes.

Jai Mundhra: That is very helpful.

Moderator: The next question comes from the line of Sameer Bhise from Dymon Asia Capital. Please go ahead.

Sameer Bhise: Just quickly, how confident are we incrementally with respect to increasing our growth guidance from, say, mid-teens to high teens? We are already delivering it. So, is it fair to expect similar momentum to continue in the next year as well?

R. Vijay Anandh: Sir, if the market is conducive, without diluting the risk, we are happy to grow.

Sameer Bhise: That is helpful. And secondly, on the ECLPs, if you could quantify the cumulative impact, say, as a percentage of loans, that will be very helpful.

Dr. N. Kamakodi: Too early. Too early. See, we just went through the call transcripts of various banks, and nobody has given you any number. And we also don't want to put ourselves in the, what you call, disadvantageous position. And broadly, we have given you all the data points. And if you work, you will be in a position to guess it yourself.

And I would like to reiterate what Vijay Anandh said. The existing provision level for NPA, that is, bucket 3, what is required and what is already available, are, by and large, matching. For others, say, Bucket-1 or Bucket-2, I mean, these are particular, like I said, these are all new areas where you need to have the provisioning for new areas like unavailed portions and all, which we had not calculated in the past. In IRAC norms, those things are not there. So, these are all the new areas.

And as we already said, and as it is already disclosed, we have some provision for the restructured assets already. Before the ECL kicks in, there will be a significant reduction in your restructured book as either the repayments will happen or whatever it is. So, you will be having some provisioning reversal from that segment. And also you have recovery from the technically written off book, which is expected.

There are many ifs and buts which the final clarification is needed yet. Say, for example, if somebody, some account becomes NPA and gets upgraded, will you be keeping that as NPA till the completion of the loan? Or if they behave properly, subsequently, after the upgradation for a few months or a few years, you will be upgrading. These sorts of finer nuances, which had not been considered in the past, lots of guidance and clarity are needed.

So, with this available information and back of the envelope calculation, we have adequate provision for accounts which have already turned NPA. For the second bucket, whatever reversal from the restructured book, by and large, you could manage the incremental requirements. It's a complicated thing, and you need to have clarity, but if you strictly look into the expected laws in the true sense, the expectation is that it is not going to be alarming.

Sameer Bhise: This is super helpful.

Moderator: The next question comes from the line of Param Subramanian from Investec. Please go ahead.

Param Subramanian: So, firstly, on CASA growth. So, we are growing now at 16% Y-o-Y on CASA. And for the last two to three quarters, we have been seeing pretty good momentum here. So, anything you would like to call out about how we are outpacing the industry quite significantly over here, and still seeing a decline in the cost of deposits? So, how is that playing out?

R. Vijay Anandh: Now, we have put a dedicated team, and the branch's focus is more now. I think with the branch focus and the dedicated team, we could see some momentum picking up here.

Param Subramanian: It is not that the positive momentum from the loan growth is feeding into CASA or something like that. Is it?

R. Vijay Anandh: No.

Dr. N. Kamakodi: And also, don't just extrapolate, like say, we will be increasing by 2% every quarter and all such things. As we had already said multiple times, we had never been in the top bracket of the CASA. And it is not going to be before a few years where we can show considerable growth, and whatever we have shown so far is allowing for fluctuations, by and large, on the same track as whatever we have demonstrated in the past.

Param Subramanian: Sir, now coming to the loan and deposit growth, I think in your initial remarks, you called out on loan and deposits. I think if you look at it on a combined basis, this looks like a decade-based quarter on growth. So, just wanted to try to understand what has changed structurally. Is it just a base effect? Is it that we are finding the environment so conducive?

I mean, a gold loan, obviously, one can understand. But overall, what is driving this very significant system plus growth on both loans and deposits that you are seeing? Or is it just some of the transformational projects that we have taken? So, if you could just broadly talk about what has changed for the Bank from a growth perspective, because there is a very significant uptrend from what we are used to seeing from the Bank on loan and deposit growth.

Dr. N. Kamakodi: See, up to pre-COVID, we had this 15% to 18% as our guidance, which we had been dealing with for many years. So, after the arrival of COVID, which impacted our growth plan for two to three years, and subsequently, one year or so, we had to spend on that transformation project, which you said. So, the point is, like, that BCG project is definitely helping us to come back to our old growth quickly. And 18 is something which is more than, let's say, 2%-3%, more than our consistent track record. Once again, I would like you to just keep it like 2% to 3% percentage over and above the growth rate of the industry, like what Vijay Anandh said, to continue. So, let us not just try to explore, let's say take 18%, 20%, 22% and all like that. Let us not do that. But definitely, gold loan growth is helping us. And the capacity expansion basically has happened at both levels.

Just to give you two or three things which will help you to understand the things better. One, we did not have a secured Retail as a separate vertical and product pre-COVID, which we started only after the arrival of our BCG project. And we never had sales vertical separately from the

branches in the past, for which a capacity was created. So, the capacity creation in Retail sales, capacity sales for the MSME vertical, capacity created for the sales in MSME vertical, which added to the regular sales that happened from the branches, along with the gold loan growth, is probably giving another 2%-3% extra growth.

Last year, we started the secured Retail vertical. And we clearly said it will incur a loss of INR 30 crores, INR 40 crores last year, because capacity was created, and the money is yet to come. And for the Financial Year '25-'26, it will be break even. And the profitability, in addition to the ROA, will start only from the 26-'27. If you remember correctly, this is what we discussed around the same time last year. That extra capacity we created, and also the BCG project, has created the capacity for processing. So, the capacity is created both in the sourcing and in the processing, which is helping us to have additional growth. As you said, the base is also small, all helping together to take it to the next level.

Param Subramanian: That's very helpful. Last bit, just on the OPEX growth, there is a sharp uptake in this quarter. So, both employee and non-employee. If you could just call out the reasons for that? Is there some DSA expense sitting there?

R. Vijay Anandh: This should be around 15% OPEX.

Dr. N. Kamakodi: See, 15% growth in business and 15% growth in OPEX, particularly on that. And as you said, the moderation in the cost-to-income ratio, we are perhaps a few quarters away. In fact, the cost-to-income ratio increased when we incurred expenses for the project. And that elbow room we started using for the creation of human capacity. And so, yes, as you said, we built the verticals for sales and other things. So, they are yet to give you the full capacity, and because of that, we see these extra expenses.

Param Subramanian: What is 15%? Because OPEX was 20%.

Dr. N. Kamakodi: For the current quarter, it is around 20%.

R. Vijay Anandh: Going forward, this will be around 15%. H1, 17%.

Moderator: The next question comes from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Sir, just on the cost of deposits, right? So, if you can just elaborate as to what proportion of deposits matured for this kind of benefit, right? And what are the upcoming or what proportion of deposits would also mature or give us that benefit in the second half?

Dr. N. Kamakodi: In the second half, there may be around INR 18,000 crores of deposits to be repriced precisely. Every month, we are expecting around INR 3,000 crores to get repriced. Already, it was around INR 18,000 crores done in the first half of the year. The process started in April. We have revised

the rate from April onwards. So, going forward, another INR 30,000 crores, which is in the range of 45% to 50% of overall deposits, will be repriced in the next half.

Gaurav Jani: And sir, just to clarify, what was this number for the 2nd Quarter? I mean, what proportion of deposits would have matured for the 2nd Quarter?

R. Vijay Anandh: Around INR 18,000 crores, sir. 2nd Quarter, maybe around INR 9,000 crores. It was INR 9,000 crores.

Gaurav Jani: And just to specify, the second half you estimate about INR 30,000 crore to mature, right?

R. Vijay Anandh: INR 18,000.

Dr. N. Kamakodi: INR 17,000 crore to INR 18,000 crore on the term deposit side.

Gaurav Jani: In the second half?

Dr. N. Kamakodi: In the second half.

Gaurav Jani: And just to, sir, simplify the ECL, while I do understand Kamakodi, sir, that it is tough for you to comment, but safe to assume that the kind of additional provisions that we have been making, that trend would continue for some quarters, right? So, what I mean is about 45 to 50 basis points.

Dr. N. Kamakodi: No, it is fluid because, as I told you, there is a significant reduction of whatever pro forma we calculated for 30th June and 30th September because of the reduction in the SMA number. As Vijay Anandh said, we had double digits last year, and it has come to single digit. So, it is going to be fluid. And once things stabilize and we get clarity on the assumptions, what we need to make, particularly on what is going to be the discount factor and all sorts of these things, we will be in a position to give that thing exactly.

Say, for example, there is at least a 15% to 20% reduction between 30th June and 30th September. So, it is a new territory to charter. But what I can definitely say is that it is not going to be as alarming. And also, comparing with the smooth transition, what NBFC had, and whatever numbers we try to calculate, it is not going to be as alarming.

One more thing, what you need to understand is that you will be making your regular provisions for the next five years also. So, when you calculate that, how much increase you are going to have over the next five years, that is why we feel it is not going to be alarming. Please understand, how much provision I will be making in the next five years if ECL is not there and purely by the IRAC norms and how much provision we will be making for the next five years for IRAC norms plus ECL together, the difference is not going to be as wide as some of the people worry.

- Gaurav Jani:** No, I understand that. Just that as is where is basis, I thought that based on the commentary, there was a slight shortfall, right? So, I just thought that was probably the kind of run rate that we are looking at. That is why I want to...
- Dr. N. Kamakodi:** See, it is only that the shortfall or whatever it is, and you are having another 5 years to manage that. And also, you have an unrecovered technical written-off account. You have the normal reduction in the restructured book. So, all these things, our back-of-the-envelope calculations say, to a greater extent, they should be converging the requirement through IRAC and converging the requirement through ECL, and nothing much to complain about.
- Moderator:** The next question comes from the line of Vivek Singh from ValuePickr Forum. Please go ahead.
- Vivek Singh:** Sir, first of all, I will congratulate you on a good set of numbers. NPAs are reducing, and ROA numbers are increasing. Sir, I just want to know what the long-term expiration goal of CUB Bank is?
- R. Vijay Anandh:** So, always keep your growth rate 2% to 3% over and above the industry growth rate and be an efficient Bank in the system. At least be one of the efficient banks in the system.
- Moderator:** The next question comes from the line of Puneet Bahlani from Macquarie Group Limited. Please go ahead.
- Puneet Bahlani:** Just on the bit, I missed the comments on growth, but I heard you saying to one participant that you expect 200 bps above industry levels. Now, I am not sure if that was for the current year, because assuming we end at 12% maximum, 13% growth, around 12% industry growth, our target of around 15% is very conservative. Are we somewhat because of the base effect last year in the second half? Are we guiding for that? But even if I factor in that, our growth should be way higher than guided. So, just wanted your comments on that.
- R. Vijay Anandh:** Couple of things. As we said before, we would love to be 2% to 3% more than industry growth. Having said that, we would not shy away from growth if the market is conducive and we don't dilute the risk.
- Puneet Bahlani:** But this year, we are still guiding that only, that 2% above the industry.
- R. Vijay Anandh:** Yes, yes. We are sticking to 2% to 3% more than industry growth.
- Puneet Bahlani:** That's it from my side.
- Moderator:** The next question comes from the line of Pritesh from DAM Capital Advisors. Please go ahead.
- Pritesh:** Two questions. One is this reclassification. If I look at this pie chart, there is a very large reclassification in personal loans. Last quarter, it was something around INR 1,300 crores. This

quarter, it is much higher. What has been the reclassification? This quarter, it is something like INR 2,600 crores.

R. Vijay Anandh: So, you are asking about #32 Slide, right?

Pritesh: Yes, 32.

R. Vijay Anandh: Yes, it is around 5%, the overall personal loan means all other loans put together.

Pritesh: But last quarter it was INR 1,300 crores, and this quarter it is INR 2,600 crores. So, I am just trying to check if there is any reclassification, and what is the reclassification? What are we now putting under this?

R. Vijay Anandh: Sir, we will come back to you. We will just check and come back to you separately.

Pritesh: Because it was 3% last quarter. And this quarter it is 5%. So, I am just checking what is being reclassified there. Yes. And the second question was on Tier-1 capital that does not include our profits for the half year, right? That is how the number is, right?

R. Vijay Anandh: Yes, only after the audit can it be included.

Pritesh: So, if you have a ballpark number, what could that be, including the profits?

R. Vijay Anandh: Simple thing is, like, whatever closing net worth on 31st March, first half profit, like say, minus 50 crores, you add, you will get an approximate number.

Pritesh: I will try that. And lastly, from a branch perspective, we have been gradually adding branches. So, what is your stance on branches from here on? How do we see branches to be added?

R. Vijay Anandh: Every year, we have been adding 75 branches. That trend will continue.

Pritesh: 75 is this year as well, which we will try to--

R. Vijay Anandh: Yes, there could be some overlapping between next year and the current year, sort of thing. But the average, rough average, the expectation of branch addition for the next couple of years will be, say, for the last 3-4 years, it had been about 75 branches, and that trend will continue.

Moderator: The next question comes from the line of Akshay Badlani from HDFC Securities. Please go ahead.

Akshay Badlani: There is one question. It is around the asset quality, especially in the MSME book, because we have been growing that book for the past few quarters. And overall, how do we see the asset quality, and what would be a guide for the credit cost overall? Are we seeing the credit cost declining at a normal average run rate? Or is this probably a one-off quarter, or how do we see

that going forward? Because overall, we were thinking, the stress was building up in MSME. But how are we seeing, you know, are there any pockets somewhere if there is more stress, or overall, the stress is receding?

Dr. N. Kamakodi: See, as Vijay Anandh said, for the next at least a few quarters, it looks like the recoveries should be more than the slippages. And you are right. During the last quarter, the market trend and the information around said that the stress is building and all. And now you have started hearing that it is getting better and all. But for us, it is almost identical earlier and now, and there is a significant improvement in the SMA.

See, originally, as a practice, particularly on the SMA, it was very difficult to convince an MSME borrower about the significance of the SMA. That's why we traditionally had higher SMA. So, now, after we started focusing on that, expecting the ECL and other things, when we started interacting with the customers more and properly making the follow-up better, the SMA numbers have also started coming down. As of now, we don't see any undue stress building into the MSME portfolio at this point in time. That is why we are able to see the net NPA numbers coming below 1% after almost a decade or so. So, things are getting better now. Particularly, we had been a little bit slow to organize these things post-COVID, but I think that since we have taken multiple projects together, everything is falling in line now.

Akshay Badlani: Just one more question on the PCR. So, I think PCR has increased this quarter as well. Where do we see it settling going forward? What would be the comfortable level for us for the PCR number?

Dr. N. Kamakodi: So, whatever pattern we have seen in the last few quarters in terms of incremental PCR, the trend will continue. It is not that we keep a big target or immediately do or whatever it is. The things will be done at their own pace.

Moderator: The next question comes from the line of Krishna from Mudhal Partners. Please go ahead.

Krishna: I have a couple of questions. Whether the business will be led by people-led growth or technology-led growth, because the net addition in headcount, if I look at multiple quarters, is less than the growth.

The second question is on the technology spend. If you can give a breakdown of how you look at the technology spend now and the coming quarters, it will be useful, sir.

Dr. N. Kamakodi: So, to answer your first question, growth will be a mix of both people and technology. See, you need both technology and people, and you are coming from the cost angle. Typically, the expenditure spent on technology, both on hardware, software, AMCs, everything put together, the trend in the industry has been about 20% of your PAT, approximately. 15% to 20% or 20% to 22%. That is the range within which the expenses are happening. And I don't think there will be any reduction in that number in the foreseeable future. And when you get productivity with

one tech spend, another technology comes for which you have to make an investment, and so on.

So, even after the SaaS model, or if you take it on a per-usage model, everywhere you go, by and large, this is the trend we are seeing over there. So, that is where 15% to 20% is what we see in terms of the overall technology spend. And that is what we expect. First-half to first-half, 17% increase in the expenditure but 18% increase in the business, but only 15% growth in the profit, so you cannot have a spreadsheet, pulling an Excel spreadsheet and everything coming under the same thing. These sorts of fluctuations will always be there.

And for example 2, 3 years back, we had issues with the operating profit, particularly after the interest rate started coming down. So, in that, we had to manage our PAT by saving on the credit cost because the recoveries were more than the slippages. We had a positive benefit because of that. For three years, we have had an INR 100 crore reduction in the addition of NPA, which has given us the headroom in building our profitability growth.

Like that, you have multiple levers all acting in a different rhythm. And our job is to understand at what pace individual rhythms operate, and based on which we have to work well where we need to manage well. And that is why we clearly said that 2% to 3% over and above the growth rate of the industry is our requirement. And NPA addition will be getting, the trend of seeing addition lower than the recoveries will continue.

But what is the exact credit cost? It depends upon the strategic decision where we need to, I mean, if you had actually looked into, 10 years back, we took a call not to get our net NPA below 1%, and we kept it above 1% only throughout, and between 1% to 2% we were handling. It accelerated to over 2% during COVID, which we have brought down. And we got it below 1% after almost a decade.

So, the point we are trying to say is that all the levers are currently going in a positive way. And this is the time we have to, let's say, get the best efficiency out of every lever.

Moderator:

Thank you. As there are no further questions, I would now like to hand the conference over to Dr. N. Kamakodi for closing comments.

Dr. N. Kamakodi:

So, thank you all for attending this conference. As said by Vijay Anandh and Ramesh, let's say, the first half had been extremely good. Growth is good. The asset quality front is good. Perhaps the growth is at the 10-year high, and the NPA levels are also at the 10-year lows, particularly the net NPA.

We have also started taking some incremental expenditure last year, particularly the creation of capacity in various verticals, which are helping us to grow, resulting in an increase in the expenditure and a slightly elevated cost-to-income ratio compared to our 10-year average. So, once productivity comes over there, the cost-to-income ratio will also start seeing a downward trend.

Overall, the first half had been extremely good. And in fact, at the beginning of the year, we were worried that a reduction in the rates would have a sharper effect on the yield and a sharper effect on the net interest margin. But fortunately, some of the steps we took had helped us to balance that and we were not only able to stabilize the net interest margin, but also, we could see a small hike also. That is why we are continuing with 10 basis points, plus or minus and all. Overall, in whatever visibility we have currently, the trend is positive.

Again, the questions on ECL, we are not able to make any specific number apart from the 10-year provision, whatever we may make without ECL and with ECL, looks like, by and large, the numbers will be converging. But anyway, for making that proper, we need to have a few more policies, like taking a clear-cut shape both from the industry, from the regulator and other things and all.

But what I can clearly see is that it is not going to be something alarming what we cannot afford to and all. So, overall, you have also seen the ROAs stabilizing. So, we hope the second half also, like on as is where is condition, the current trend should continue. By God's grace, we hope the second half should be good going forward.

With this closing remark, once again, as usual, you may always get in touch if you have any specific thing. Overall, thank you all for attending. Once again, thanks to Ambit for arranging the call. Thank you.

Moderator:

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