Q1 2024

1. Loan disbursement growth

- **Narrative:** The management of CUB focuses on enhancing loan disbursement growth through strategic initiatives. They are prioritizing their existing customer base, particularly in the MSME segment, to streamline processes and improve approval rates. There's a significant effort to improve retail loans, including housing loans, through a verticalization strategy, though this is expected to take a few quarters to a few years to fully materialize. The overall strategy includes leveraging partnerships, such as co-lending with NBFCs, to enhance the loan portfolio's growth and capacity.
- **Management's Guidance:**
- The company aims to increase its loan book by 15% in the next fiscal year. Growth in the newer portfolio of co-lending is expected to contribute significantly, with the expectation of forming 7 to 10% of the overall loan book in about five years. Regular MSME, commercial trading, and gold loans can grow at about 10% to 11%, with new lines of activities expected to contribute 25% to the growth rate, constituting 12 to 15% of the overall loan book in a four to five-year timeframe. A guided loan growth of 12 to 14% has been set.
- **Actual Results:**
['Q2', '2024']:
- We have seen about Rs.1,280 Crores or 3% credit growth during the Q2 2024.
['Q4', '2024']:
- Advances registered a growth of 6% from Rs.440 Bn to Rs.465 Bn Y-o-Y, indicating a performance below the guided loan growth target of 12% to 14% for the fiscal year.
['Q1', '2024']:
- Dr. N. Kamakodi stated that the advances had grown by 4% in Q1 '24 compared to Q1 '23, standing at INR 42,405 Crores.
['Q3', '2024']:
- ADVANCES 3,45,762 3,70,206 4,11,560 4,39,708 4,40,173 31-3-2020 31-3-2021 31-3-2022 31-3-2023 31-12-2023
- **Evaluation:**
- Expectations Not Met: The actual loan growth was 6% for the fiscal year, falling short of the guided growth target of 12% to 14%, indicating that the company's expectations were not met.

2. Digital lending expansion

- **Narrative:** The management at CUB has laid a strategic emphasis on enhancing digital lending capabilities to drive growth. They are focusing on streamlining the digital lending process, which is anticipated to significantly boost the company's growth trajectory. This digital transformation is expected to impact various segments, particularly the MSME sector, by reducing turnaround times and enhancing capacity utilization.
- **Management's Guidance:**
- The company aims to achieve a double-digit growth rate of 12 to 14% by the second quarter, driven by the digital lending initiatives. They anticipate that the benefits of a digitalized lending process will manifest in the second half of FY'24, contributing to this growth target. The digital lending advancements are expected to improve task efficiency and support the overall growth objective.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q3', '2024']:
- bb2cdc7ca88ad9c0f71a47ebf6edf313 --> N. Kamakodi [Rolled out first phase of automated loan underwriting process.] 084cc3b0b6c45c281b31515c80dd3e66 --> [Unattributed] "first stage of digital lending process has started. And we also have started seeing about INR400-odd-crores growth in the last couple of months." 6535e68c207fad6027cce730149d7480 --> N. Kamakodi [First, the phase of proposals less than INR3 crores is already online fully.]
['Q4', '2024']:
- Mona Khetan [All our MSME loans today up to INR5 crores are digitally dispersed with TAT at 48 hours or thereabout.]
['Q1', '2024']:
- Data Not Available
- **Evaluation:**
- Expectations Met: By Q3, 2024, the first phase of the digital lending process was rolled out, showing growth in lending, and by Q4, 2024, MSME loans up to INR5 crores were digitally disbursed with a TAT of 48 hours, aligning with management's guidance of digital lending improvements supporting growth.

3. Technology adoption initiatives

- **Narrative:** Management is focused on enhancing operational efficiency through digital transformation initiatives. They are introducing digitization measures, including the implementation of scorecards, to streamline processes and reduce turnaround times (TAT) significantly. This initiative is expected to gradually increase key performance metrics over time.
- **Management's Guidance:**
- Management anticipates that the digitization efforts will reduce the soft approval time from the current 1-2 weeks to approximately 22 to 24 hours. Additionally, they expect a phased improvement in performance metrics, aiming to achieve over 50% efficiency upon the completion of digitization, with incremental improvements from the current levels of 30-35% to 35-40% in the interim.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q4', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

4. Sectoral loan distribution
- **Narrative:** Management has emphasized a strategic focus on diversifying the loan portfolio by expanding into new areas. This expansion is aimed at strengthening the company's internal capabilities and tapping into emerging sectors, reflecting a balanced approach to managing sectoral loan distribution.
- **Management's Guidance:**
- Management anticipates that 85% of the growth will be driven by the existing portfolio combination, while the remaining 15% will originate from new areas. This includes approximately 8 to 10% from co-lending and other innovative areas, and 5 to 7% from the increased retail sector and other segments that the company is actively developing.
- **Actual Results:**
['Q3', '2024']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q4', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

5. Profit margin trends
- **Narrative:** Management conveyed their strategic focus on maintaining a robust profit margin trend by targeting specific growth metrics. This involves achieving set percentage goals within the fiscal year to ensure financial stability and capital adequacy.
- **Management's Guidance:**
- Management expects to achieve a profit margin between 42 to 44% for the current fiscal year. Additionally, they are working towards reaching a 12 to 14% margin by the end of the year.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q4', '2024']:
- N. Kamakodi - "Fourth quarter was 51 %. Year as a whole was 47 %."
['Q1', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Expectations Exceeded: Management expected a profit margin of 42 to 44% for the fiscal year, but the actual results showed a margin of 47% for the year and 51% in the fourth quarter, surpassing their guidance.

6. Regional market focus
- **Narrative:** Management outlined its strategy to strengthen the company's market position by expanding its footprint. This involves entering two new markets by the end of the next year, signifying an aggressive approach to capturing additional regional market share.
- **Management's Guidance:**
- Management anticipates opening 20 new branches across the country over the next 18 months, indicating a robust growth strategy focused on increasing market penetration and accessibility.
- **Actual Results:**
['Q4', '2024']:
- Actual Results: Data Not Available
['Q2', '2024']:
- Data Not Available
['Q1', '2024']:
- Pan India presence with 752 branches, Strong presence in South India (669 branches) of which 519 are in Tamil Nadu alone, [STATE TAMILNADU No. of Branches 519], [STATE ANDHRAPRADESH No. of Branches 49]
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

7. Long-term growth strategies
- **Narrative:** The management has articulated a strategic focus on achieving double-digit growth in advances and PAT for FY 2024. They aim to expand their lending portfolio by venturing into retail and services sectors, along with maintaining growth in existing business segments like MSME, trading, agriculture, and gold loans. Additionally, there is a commitment to ensure smooth succession planning for the leadership transition.
- **Management's Guidance:**
- The management is targeting a double-digit advance growth rate between 12% to 14% for FY 2024. They plan to penetrate retail and services lending sectors to achieve a double-digit growth rate for the current year. The management expects an increase in revenue by 10% in the next fiscal year. They have set up a subcommittee to ensure smooth succession planning, with a focus on overlapping periods for leadership transition.
- **Actual Results:**
['Q4', '2024']:
- Data Not Available
['Q2', '2024']:
- Data Not Available

['Q1', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

8. NPA recovery focus
- **Narrative:** The management demonstrated a strong focus on improving asset quality through strategic measures aimed at reducing non-performing assets (NPAs). The emphasis was on achieving a significant reduction in net NPAs to pre-COVID levels, enhancing the coverage ratio, and ultimately improving the Return on Assets (ROA) to align with long-term targets. This commitment reflects a structured approach to strengthen the company's financial stability and operational efficiency.
- **Management's Guidance:**
- The management aims to close FY '24 with a substantial reduction in net NPA, improved coverage ratio, and ROA close to the long-term average of 1.5. CEO N. Kamakodi expects the net NPA to decrease to below 2%, nearing the pre-COVID level of 1.75% to 1.80% for the year as a whole. The target is set to reduce non-performing assets to below 2% by the end of this year. There is an expectation of recoverability of 40-50% from INR 1,400 Crs.
- **Actual Results:**
['Q4', '2024']:
- The net NPA declined to 1.97% as on 31st March 2024, compared to 2.95% on the corresponding period last year. The net NPA also came below the 2% mark, achieving the management's target.
['Q3', '2024']:
- The net NPA declined to INR 941 crores as on 31st of December 2023 and is at 2.19% for Q3 financial year '24, compared to 2.67% in Q3 financial year '23. The net NPA is also on a decreasing trend in the current financial year, that is 2.51% in Q1 FY '24, 2.34% in Q2 FY '24 and 2.19% in Q3 financial year '24.
['Q1', '2024']:
- The recoveries from the slippages in Q1 FY '24 amounted to INR 75 Crs, and upgradation to the tune of INR 23 Crs in the live NPA account were not considered in the NPA collection from 1st of July to the date of audit.
['Q2', '2024']:
- The net NPA has come down below Rs.1,000 Crores mark after many quarters. Net NPA: 2.34%.
- **Evaluation:**
- Expectations Met: The management's target to reduce net NPA below 2% was achieved, with the net NPA declining to 1.97% by the end of FY '24, aligning with the stated goals to return to pre-COVID levels.

9. Improved recovery strategies
- **Narrative:** Management has articulated a focus on improving recovery strategies, anticipating a positive impact on overall financial performance. The expectation is that enhanced recovery efforts will contribute to a reduction in slippages, particularly in the second half of the year, thereby offsetting any anticipated profit dips in the earlier quarters.
- **Management's Guidance:**
- Management anticipates a decrease in slippage rates and improved recovery for the entire year, which is expected to complement and stabilize profits in the latter half of the year.
- **Actual Results:**
['Q3', '2024']:
- The slippage of our Q3 financial year '24 is INR187 crores while total recoveries made is INR289 crores, comprising of INR224 crores from live NPA accounts, and INR65 crores from the technically written off accounts.
['Q2', '2024']:
- Our absolute slippage number for the Q2 FY2024 is Rs.225 Crores while the total recoveries made is Rs.299 Crores comprising of Rs.238 Crores from the live NPA accounts and Rs.61 Crores from the technically written off accounts.
['Q4', '2024']:
- For Q4 2024, the total slippage was reported at INR219 crores with total recoveries amounting to INR275 crores, which includes INR233 crores from live NPA accounts and INR42 crores from technically written-off accounts.
['Q1', '2024']:
- Total live recovery plus technical written-off recovery also improved between 2022 to 2023, about INR 250-odd Crs.
- **Evaluation:**
- Expectations Met: The management's guidance anticipated improved recovery strategies would decrease slippage rates and stabilize profits in the latter half of the year. The actual results showed consistent recoveries exceeding slippages across all quarters, aligning with management's expectations of improved financial performance.

10. Slippage ratio reduction
- **Narrative:** Management is focused on reducing slippage ratios as a key driver for achieving a significant profit milestone in the current fiscal year. They acknowledge that the recent spike in slippage and NPAs is temporary and anticipate returning to normalized levels. The company has also indicated improved recovery between FY '22 and '23, and aims for continued enhancement in this area.
- **Management's Guidance:**
- Management anticipates the incremental slippage to be reduced to below INR 1,000 crore, specifically between INR 850 to INR 1,000 crore for the year. They hope that total slippages for the whole year will be less than INR 1,000 crore, with a targeted reduction of INR 250 crore to INR 300 crore.
- **Actual Results:**
['Q4', '2024']:
- The total slippage for financial year '24 is INR 1,013 crores as against INR 1,276 crores in the financial year '23.
['Q3', '2024']:
- [City Union Bank Limited] Our NPA slippages have come down significantly and the live NPA recoveries have surpassed the live slippages.
['Q2', '2024']:
- Our slippage ratio for the Q2 has come down to 2.06 almost equal to the pre COVID level.

['Q1', '2024']:
- Because of the above changes in accounting, the slippages for the current quarter is elevated at 3.6 % (annualized basis), our gross NPA is at INR 2,081 Crs, Gross NPA stood at 4.91 %, our net NPA stood at INR 1,039 Crs and NNPA ratio to 2.51 %. Our standard restructured assets got reduced to 2.69 % of the total advances as on 30th of June 2023, from the peak level of 5.91 % to the total advances in September 2021. N. Kamakodi: "we used to have about, 2 to 2.5 % slippages before the COVID, which increased to about 3 to 3.5 %."
- **Evaluation:**
- Expectations Not Met: The management aimed to reduce total slippages to below INR 1,000 crore, targeting a reduction to between INR 850 and INR 1,000 crore. However, actual results showed total slippages at INR 1,013 crore for FY '24, which did not meet their guidance.

11. Cost-to-income ratio trends
- **Narrative:** Management has outlined a focus on improving operational efficiency and cost management by targeting a reduction in the cost-to-income ratio. This strategic initiative reflects their commitment to sustainable financial health by optimizing resources and managing expenditures effectively over the long term.
- **Management's Guidance:**
- Management aims for a 15% reduction in costs over the next two years.
- **Actual Results:**
['Q3', '2024']:
- In Q3 FY24, the cost-to-income ratio was reported at 48.64%, which represents an increase from the previous year (Q3 FY23) where it was 36.24%. This indicates a negative trend in operational efficiency and cost management compared to the management's guidance of reducing this ratio.
['Q4', '2024']:
- Our cost-to-income ratio for Q4 FY '24 is 51.26% and the same is at 47.06% for the FY '24.
['Q1', '2024']:
- The cost-to-income ratio for Q1 FY 24 is reported as 41.98%, which is an increase from 39.78% in the corresponding period last year.
['Q2', '2024']:
- Cost to Income for Q2 FY 2024 was reported at 46.34%, which shows the actual performance in terms of cost-to-income ratio trends.
- **Evaluation:**
- Expectations Not Met: The actual cost-to-income ratio increased from 36.24% in Q3 FY23 to 48.64% in Q3 FY24 and further to 51.26% in Q4 FY24, which is contrary to management's guidance of a 15% reduction, indicating a negative trend in operational efficiency and cost management.

12. Net interest margin stability
- **Narrative:** The management has expressed a focus on maintaining net interest margin stability by closely monitoring the current levels. This approach indicates a strategic emphasis on preserving the bank's financial health amidst varying market conditions.
- **Management's Guidance:**
- Management anticipates that the net interest margin will fluctuate within a range of plus or minus 10 basis points from the current level in the upcoming quarters.
- **Actual Results:**
['Q4', '2024']:
- The Net Interest Margin for Q4 FY 24 is reported as 3.66%, which is within the guidance range of plus or minus 10 basis points from the current level.
['Q2', '2024']:
- The net interest margin for Q2 FY 24 was reported as 3.74%, which falls within the anticipated fluctuation range of ±10 basis points from the previous quarters.
['Q1', '2024']:
- The net interest margin for Q1 FY24 was reported at 3.67%, which is within the management's guidance of fluctuating within a range of plus or minus 10 basis points from the current level.
['Q3', '2024']:
- In Q3 FY 24, the Net Interest Margin was reported at 3.50%, which is within the management's guidance range of fluctuating 10 basis points around the current level.
- **Evaluation:**
- Expectations Met: The net interest margin remained within the management's guidance range of plus or minus 10 basis points from the current level throughout all quarters of FY 2024, aligning with management's expectations for stability.

13. New product offerings
- **Narrative:** Management is focused on expanding the company's portfolio through the introduction of new products. This move is part of a broader strategic initiative to strengthen market presence and drive growth.
- **Management's Guidance:**
- Management has set a target to launch three new products by the third quarter, indicating a proactive approach to capture emerging opportunities and enhance the company's competitive edge.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q4', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.