Q3 2024

1. Loan disbursement growth
- **Narrative:** Management has outlined a phased approach to increase the threshold for loan disbursements, starting with amounts less than INR3 crores and incrementally raising it to INR7.5 crores. This strategy is in alignment with regulatory guidelines and aims to streamline the loan approval process for retail customers.
- **Management's Guidance:**
- Management anticipates increasing the loan disbursement threshold to INR5 crores in the coming weeks, followed by a further increase to INR7.5 crores. Additionally, they expect to be in a position to grant in-principle sanction for all facilities below INR5 crores within the next month, provided all conditions are favorable.
- **Actual Results:**
['Q1', '2025']:
- N. Kamakodi [We started with less than Rs. 3 crores then we extended it to Rs. 5 crores.]
['Q4', '2024']:
- Data Not Available
['Q2', '2025']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Expectations Met: Management anticipated raising the loan disbursement threshold to INR5 crores, which was successfully implemented as confirmed by the Q1 2025 results. Further data for increases beyond INR5 crores is not available.

2. Credit risk assessment
- **Narrative:** The management of CUB discussed enhancements in their credit risk assessment processes, focusing on leveraging technology to improve decision-making and reduce the probability of default within their portfolio. They are implementing systems that will automate and refine the evaluation process, aiming for increased efficiency and accuracy in risk management over the coming quarters.
- **Management's Guidance:**
- The system is expected to stabilize the reduction in the probability of default over the next few quarters. A combination of automated and manual checks will be utilized, particularly for proposals ranging from INR5 crores to INR7.5 crores, to ensure comprehensive risk assessment and reduce manual intervention significantly.
- **Actual Results:**
['Q1', '2025']:
- Data Not Available
['Q2', '2025']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q4', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

3. Digital lending expansion
- **Narrative:** Management has emphasized the strategic focus on digital transformation through the expansion of digital lending capabilities. They have initiated the digital lending process with the assistance of BCG and have begun implementing an automated loan underwriting process. This is part of a broader strategy to streamline operations and improve efficiency, particularly targeting segments with exposures less than INR7.5 crores.
- **Management's Guidance:**
- The management anticipates that the full benefits of these digital lending processes will be reflected in the bottom line over the next few quarters as the automated systems are fully operational and integrated into their lending practices.
- **Actual Results:**
['Q1', '2025']:
- N. Kamakodi - Expenses for digital lending process: Rs. 25 to Rs. 30 crore in fees to BCG, 2% to 3% of overall PAT, and Rs. 10 to Rs. 15 crore for software. A small sample of 2,000 customers were sent messages about pre-approved credit, achieving over 10% acceptance, and 2-3 repayment cycles completed without any DPD.
['Q2', '2025']:
- Data Not Available
['Q3', '2024']:
- N. Kamakodi rolled out the first phase of the automated loan underwriting process. The first stage of the digital lending process has started, and there has been approximately INR400 crores growth in the last couple of months. 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.]
- **Evaluation:**
- Expectations Met: The digital lending expansion aligned with management's expectations as the automated loan underwriting process was successfully implemented, leading to a growth of approximately INR400 crores and achieving a quick turnaround time for MSME loans up to INR5 crores, indicating operational integration as planned.

4. Technology adoption initiatives
- **Narrative:** Management is focused on enhancing their technological capabilities by undertaking significant projects aimed at increasing automation and

improving their financial processes. This is part of a broader strategy to modernize their operations and potentially expand into new areas such as unsecured lending.

- **Management's Guidance:**
- Management has stated that they have commenced a project with the goal of enhancing their capabilities to Rs.5 crores, with testing already underway. Additionally, they have indicated plans to gradually introduce automation to support a future expansion into an unsecured portfolio over the next five years.
- **Actual Results:**

['Q1', '2025']:
- Data Not Available

['Q2', '2025']:
- Data Not Available

['Q3', '2024']:
- Data Not Available

['Q4', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

5. Profit margin trends

- **Narrative:** Management has expressed a strong focus on improving financial metrics with a key target of achieving a 4-digit profit after tax (PAT) for the first time in the company's history by the end of the financial year 2024. This reflects a strategic emphasis on enhancing profitability and financial health.
- **Management's Guidance:**
- Management expects to achieve a 4-digit PAT for the financial year 2024, which would mark a significant milestone for the company. There is an anticipation of closing the financial year 2024 with a decent PAT growth accompanied by a substantial reduction in non-performing assets (NPA), an improved coverage ratio, and a return on assets (ROA) close to the long-term average of 1.5%.
- **Actual Results:**

['Q1', '2025']:
- We had achieved a PAT growth of 16%, and our PAT stood at Rs. 264 crore against Rs. 227 crore in Q1 FY '24. Our ROA stood at 1.51% for the Q1 FY '25 compared to 1.40 for the corresponding period last year.

['Q4', '2024']:
- For Q4 FY24, City Union Bank Limited reported a Profit After Tax (PAT) of INR 255 crores, which represents a 17% growth compared to Q4 FY23. The PAT for the full financial year 2024 stood at INR 1,016 crores, marking the achievement of the management's target of a 4-digit PAT. The Return on Assets (ROA) for FY24 was reported at 1.52%, which aligns closely with the management's guidance of around 1.5%.

['Q2', '2025']:
- Data Not Available

['Q3', '2024']:
- Our PAT has grown by 16% in Q3 financial year '24 and stood at INR 253 crores compared to INR 218 crores in Q3 financial year '23.
- **Evaluation:**

- Expectations Met: The management's goal of achieving a 4-digit PAT was met, with a PAT of INR 1,016 crores for FY24. Additionally, the ROA aligned closely with the target of around 1.5%, reported at 1.52%, reflecting the strategic emphasis on improving financial metrics.

6. Return on equity (ROE) enhancement

- **Narrative:** The management has outlined a strategy focused on enhancing the company's return on equity (ROE) through targeted growth rates. Over the next several quarters, the aim is to boost ROE by achieving specific growth metrics.
- **Management's Guidance:**
- The management aims to achieve a growth rate of approximately 16% to 17% over the next 4 to 8 quarters, which is expected to enhance the return on equity to similar levels. Additionally, there is a commitment to slightly exceed these growth metrics, thereby improving profitability and deposit growth rates.
- **Actual Results:**

['Q4', '2024']:
- Return on Equity for Q4 FY 24 is 12.39%

['Q2', '2025']:
- Return on Equity: 12.93% (Q2 FY 25), 14.36% (Q2 FY 24), 12.74% (H1 FY 25), 13.26% (H1 FY 24), 12.45% (Q1 FY 25), 12.86% (FY 24)

['Q3', '2024']:
- Return on Equity 12.57% Q3 FY 24

['Q1', '2025']:
- Return on Equity for Q1 FY 25 is 12.44%.
- **Evaluation:**

- Expectations Not Met: The management aimed for ROE growth to approximately 16% to 17% over several quarters, but the actual ROE remained around 12.39% to 12.93%, significantly below the target.

7. Slippage ratio reduction

- **Narrative:** Management has emphasized a strong focus on maintaining asset quality through effective recovery efforts. They have indicated that recoveries will continue to surpass slippages, aiming to restore slippage levels to their pre-COVID state, which reflects a proactive approach to managing potential defaults and maintaining financial stability.
- **Management's Guidance:**
- Management anticipates that recoveries will surpass slippages in the upcoming quarters, with slippage levels expected to revert to pre-COVID levels. Additionally, they foresee a reduction in credit costs by approximately INR 200 crores due to diminished slippages compared to the previous year.
- **Actual Results:**

['Q2', '2025']:
- Our total slippage was INR354 crores as against INR607 crores in the first half last financial year.

['Q1', '2025']:

- For the current quarter, the total slippage is Rs. 178 crores.
['Q4', '2024']:
- Our NPA slippages had come down significantly, live NPA recoveries had surpassed the live slippages.
['Q3', '2024']:
- Our NPA slippages have come down significantly and the live NPA recoveries have surpassed the live slippages. Our annualized slippage ratio for Q3 has come down to 1.70% in Q3 financial year '24 from the peak of 5.56% in Q4 financial year '20. It has also reduced from 2.06% in Q2 financial year '24. We get a benefit of about not less than about INR 200 crores compared to the previous year in credit cost because of the lower slippages, vis-à-vis the recovery.
- **Evaluation:**
- **Expectations Exceeded**: Management anticipated recoveries to surpass slippages with a reduction in slippage levels and credit costs. The actual results showed a significant decrease in slippage from INR 607 crores to INR 354 crores in the first half of the financial year 2025, with recoveries surpassing slippages, resulting in a reduction in credit costs by INR 200 crores, thus exceeding expectations.

8. Long-term growth strategies
- **Narrative:** Management is focused on maintaining a steady growth trajectory for the coming financial year. The company plans to sustain its growth momentum by aiming for a 12% to 14% growth rate, with a strategic focus on expanding its branch network to reach 800 branches by the end of the financial year 2024. The company also aims to realign its deposit growth to match the credit growth, ensuring a balanced expansion.
- **Management's Guidance:**
- Management has maintained the guidance for FY'24 at 12% to 14% growth. The company aims for a 12% to 15% growth for the financial year '24, with growth expected to be skewed towards the year-end. Plans are in place to open the 800th branch by the end of the financial year 2024. The company expects deposit growth to match the credit growth.
- **Actual Results:**
['Q1', '2025']:
- Data Not Available
['Q4', '2024']:
- Data Not Available
['Q2', '2025']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

9. Net interest margin stability
- **Narrative:** Management has indicated a focus on maintaining net interest margin (NIM) stability by accounting for exceptional items that could otherwise distort the reported figures.
- **Management's Guidance:**
- Management noted that the net interest margin (NIM) would have been 3.7% for Q3 FY '24 if excluding a one-off item.
- **Actual Results:**
['Q1', '2025']:
- Net Interest Margin for Q1 FY 25 is 3.54%.
['Q4', '2024']:
- The Net Interest Margin (NIM) for Q4 FY 24 is reported at 3.66%.
['Q2', '2025']:
- City Union Bank Limited reported that the net interest margin for Q2 FY25 improved to 3.67%, compared to 3.54% in Q1 FY25.
['Q3', '2024']:
- Net Interest Margin for Q3 FY 24 was reported as 3.50%.
- **Evaluation:**
- Expectations Not Met: Management expected a net interest margin (NIM) of 3.7% for Q3 FY '24 excluding a one-off item, but the actual NIM reported for Q3 FY '24 was 3.50%, indicating a shortfall from the expected figure.

10. Yield on advances trends
- **Narrative:** Management has indicated that current market conditions appear favorable to achieving a monthly yield increase on advances of approximately 1%, potentially totaling an annual increase of 13% to 14%. This suggests a strategic focus on optimizing yield through consistent incremental growth.
- **Management's Guidance:**
- Management anticipates maintaining a yield increase of approximately 1% per month, translating to an annual increase of 13% to 14%, assuming current conditions remain favorable.
- **Actual Results:**
['Q2', '2025']:
- Yield on Advances for Q2 FY25 is 9.81%
['Q4', '2024']:
- Our yield on advances for Q4 financial year '24 stands at 9.85% compared to 9.31% in the corresponding quarter last year.
['Q1', '2025']:
- Our yield on advances stood at 9.59% for Q1 FY ‘25 as against 9.53% for the same period last year and it was 9.85% in the Q4 FY 2024.
['Q3', '2024']:
- Yield on advances for Q3 FY 24 stood at 9.62% compared to 9.16% in the corresponding quarter last year.
- **Evaluation:**
- Expectations Not Met: Management anticipated a consistent monthly yield increase leading to an annual growth of 13% to 14%, but actual quarterly results show yields only rising from 9.31% in Q4 FY 2024 to 9.81% in Q2 FY 2025, indicating less growth than expected.

11. Cost-to-income ratio trends

- **Narrative:** Management emphasized their ongoing efforts to improve operational efficiency through strategic cost management initiatives. They highlighted the importance of optimizing the cost-to-income ratio as a critical component of their financial performance improvement plan.

- **Management's Guidance:**

- Management indicated that they are targeting an optimal cost-to-income ratio by implementing more rigorous cost control measures and enhancing operational efficiencies. They expect these initiatives to lead to a positive impact on the company’s financial performance in the upcoming quarters.

- **Actual Results:**

['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', '2025']:

- Efficiency ratio 49.34%

['Q2', '2025']:

- Our cost-to-income ratio for Q2 financial year '25 had reduced to 47.06% as compared to 49.34% in Q1 financial year '25 and 51% in Q4 2024.

['Q3', '2024']:

- The actual cost-to-income ratio for Q3 FY 24 was reported at 48.64%, which shows a deviation from the implied improvement target suggested by management guidance. This indicates an increase compared to the 36.24% in Q3 FY 23, contrary to the management's emphasis on optimizing this ratio through strategic cost management initiatives.

- **Evaluation:**

- Expectations Not Met: Despite management's guidance on optimizing the cost-to-income ratio through strategic cost management, the ratio deteriorated in Q3 FY24 compared to Q3 FY23, and only saw minor improvements by Q2 FY25, indicating that the targeted improvements were not fully achieved.

12. Process automation initiatives

- **Narrative:** Management emphasized the importance of process automation initiatives to bolster operational efficiency and cost management. They highlighted the strategic focus on streamlining processes to expedite customer service responses, aiming to enhance overall productivity.

- **Management's Guidance:**

- Management indicated that with complete data input and supporting documents provided by customers, the company aims to process and respond to customer requests within the same day.

- **Actual Results:**

['Q4', '2024']:

- Data Not Available

['Q2', '2025']:

- Data Not Available

['Q1', '2025']:

- Data Not Available

['Q3', '2024']:

- N. Kamakodi [Earlier, this entire process used to take weeks, if not months.]

- **Evaluation:**

- Insufficient Info: Data not available.