

## Stable return ratios to sustain premium valuation...

City Union Bank (CUB) reported steady operating profit of ₹ 338 crore on the back of stable NII growth of 14.3% YoY at ₹ 421 crore & strong other income growth of 22.6% YoY at ₹ 147 crore led by higher recoveries from written off account. Margins remained flat QoQ at 4.4% as rising cost of fund was offset by increase in yield on advances. Credit growth remained consistent at 17.3% YoY at ₹ 32673 crore, led by growth in agriculture & retail book by 19% & 18% YoY, respectively. Reclassification of certain business loan backed by commercial real estate a collateral impacted SME growth. Deposit growth was stronger at 17% YoY at ₹ 38448 crore, highest in last 20 quarter on back of 25% YoY & 15% YoY growth in savings & current deposits. Accordingly, CASA ratio stood at 25.2%, up 100 bps YoY & 137 bps QoQ.

The bank's conservative approach kept asset quality largely stable though slippages were a bit higher at ₹ 204 crore, leading to a ~4 bps QoQ increase in GNPA ratio to 2.95%. The management reiterated slippage will remain under control at ~1.75-2% of advances with improvement in recoveries.

## Consistent loan growth, steady margins to drive earnings

The management expects advances growth to remain steady at 18-20% YoY led by growth in MSME & retail segments. However, margins are seen moderating a bit, going ahead. Overall, we expect loan growth at 17% CAGR to ₹ 44726 crore in FY19-21E & steady margins at 4.1% in FY21E. Accordingly, PAT is expected to grow at 13.2% CAGR to ₹ 875 crore in FY19-21E, while RoA, RoE are seen staying steady at ~1.6%, ~15%, respectively.

## Asset quality to continue to remain stable

The management's strategy of disbursing granular loan has aided the bank in maintaining best in class asset quality compared to peers. Negligible or no exposure to stressed corporate like IL&FS and low proportion of loans to NBFC sector (at ~0.8% of credit) enabled the bank to keep away any NPA shocks. However, scanty rainfall in Tamil Nadu (bank has ~70% business in the state), as predicted by the Met department, could have an impact on growth as well as asset quality. We expect GNPA, NNPA at ~2.6%, 1.4%, respectively, in FY21E.

## Valuation & Outlook

The bank has consistently delivered healthy business growth along with a tab on asset quality. CUB has guided at maintaining RoAs >1.5%+ and RoE ~15%, going ahead, on the back of healthy credit growth of 18-20%, stable margins and controlled asset quality. We continue to prefer CUB as it is well placed among regional players and comfortable on the capital front with tier-1 ratio at 15%. CUB has historically traded at a premium to other regional banks due to better return ratios and a consistency in earnings. We maintain our **BUY** rating and target price of ₹ 240 (earlier ₹ 225) valuing at a multiple of 2.6x FY21E BV.



### Particulars

Particulars	Amount
Market Capitalisation	₹ 14587 crore
GNPA (Q4FY19)	₹ 977 crore
NNPA (Q4FY19)	₹ 591 crore
NIM (Q4FY19) (%)	4.4
52 week H/L	208 /157
Networth	₹ 4841 crore
Face value	₹ 1
DII Holding (%)	26.7
FII Holding (%)	24.4

### Key Highlights

- Consistent growth in credit to continue at ~17% CAGR in FY19-21E
- Conservative approach keeping control on opex and asset quality to lead to relatively premium valuation
- Maintain **BUY** with target price of ₹ 240 (earlier ₹ 225)

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### Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	1199	1430	1611	1863	2171	16%
PPP	994	1208	1240	1420	1641	15%
PAT	503	592	683	758	875	13%
BV (₹)	59.4	62.7	65.9	75.9	87.5	
ABV (₹)	52.6	55.4	58.9	68.3	79.3	
P/ABV	3.8	3.6	3.4	2.9	2.5	
P/BV	3.4	3.2	3.0	2.6	2.3	
P/E	23.9	22.4	21.5	19.4	16.8	
RoA	1.5	1.6	1.6	1.6	1.6	
RoE	15.4	15.5	15.3	14.7	14.7	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
NII	421	433	368	14.3	418	0.6	Steady margins & healthy credit growth led to NII growth
NIM (%)	4.40	4.3	4.4	4 bps	4.4	-1 bps	Higher cost of funds offset by increase in lending rate
Other Income	147	122	120	22.6	120	22.6	Higher recoveries from written off account keep other income higher
Net Total Income	567	556	488	16.3	538	5.5	
Staff cost	91	97	77	19.1	93	-1.5	
Other Operating Expenses	138	142	117	18.5	138	0.0	
PPP	338	316	294	14.8	307	10.1	PPP traction higher owing to higher other income
Provision	91	75	86	5.3	79	15.1	
PBT	247	241	208	18.7	228	8.3	
Tax Outgo	72	63	56	28.6	50	44.0	
PAT	175	178	152	15.1	178	-1.7	PAT growth steady YoY; in line with our estimates
<b>Key Metrics</b>							
GNPA	977	923	857	14.1	892	9.5	Slippages of ₹ 204 crore lead to marginal increase in GNPA
NNPA	591	533	475	24.6	528	12.1	
Advances	32,673	32,628	27,853	17.3	30,637	6.6	Advances growth continues to remain healthy
Deposits	38,448	37,565	32,853	17.0	35,504	8.3	CASA ratio witnesses 137 bps QoQ to 25.2%

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore	FY20E		% Change	FY21E
	Old	New		Introduced
Net Interest Income	1,893	1,863	-1.6	2,171
Pre Provision Profit	1,447	1,420	-1.9	1,641
NIM (%)	4.0	4.0	0 bps	4.1
PAT	766	758	-0.9	875
ABV (₹)	68.7	68.3	-0.5	79.3

Source: Company, ICICI Direct Research

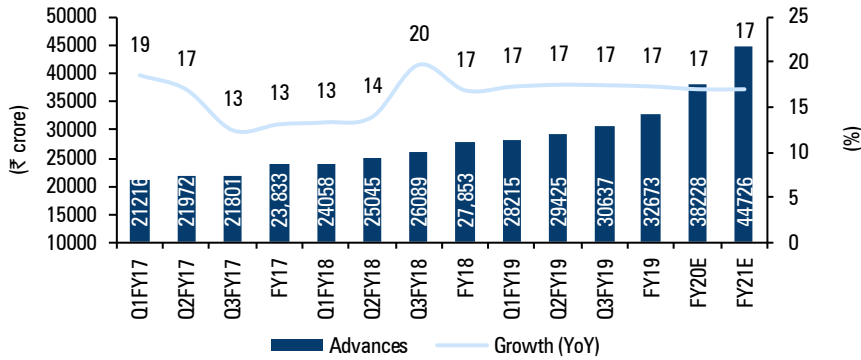
Exhibit 3: Assumptions

	FY18	Current		Earlier	
		FY19	FY20E	FY21E	FY20E
Credit growth (%)	13.2	16.9	17.3	17.0	17.0
Deposit Growth (%)	10.9	9.1	17.0	16.3	14.4
CASA ratio (%)	23.4	24.2	25.2	25.4	24.8
NIM Calculated (%)	3.8	4.0	4.0	4.0	4.0
Cost to income ratio (%)	40.8	38.3	41.5	41.5	41.0
GNPA (₹ crore)	682	856	922	1,036	1,036
NNPA (₹ crore)	408	479	513	555	507
Slippage ratio (%)	2.0	2.1	1.7	1.6	1.6
Credit cost (%)	1.1	1.1	0.9	1.0	1.0

Source: Company, ICICI Direct Research

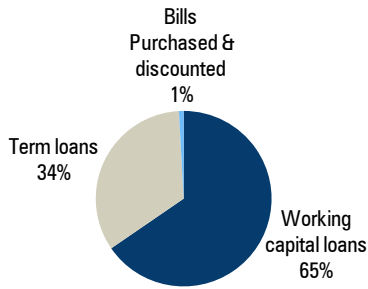
### Story in Charts

Exhibit 4: Credit traction to remain steady at 17% CAGR, going ahead



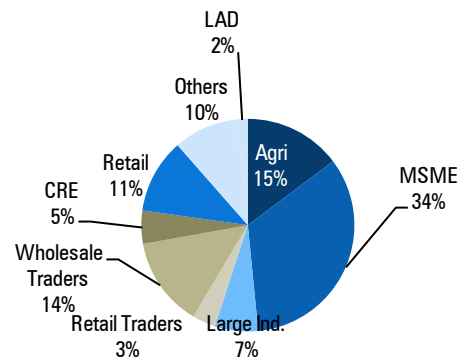
Source: Company, ICICI Direct Research

Exhibit 5: Loan break-up – Product wise



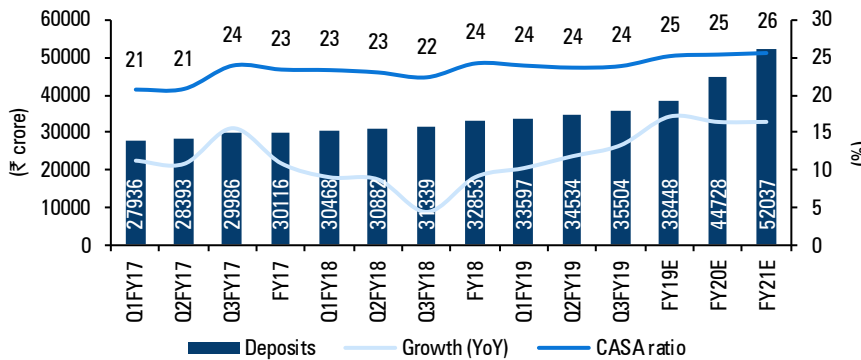
Source: Company, ICICI Direct Research

Exhibit 6: Loan break-up – Sector wise



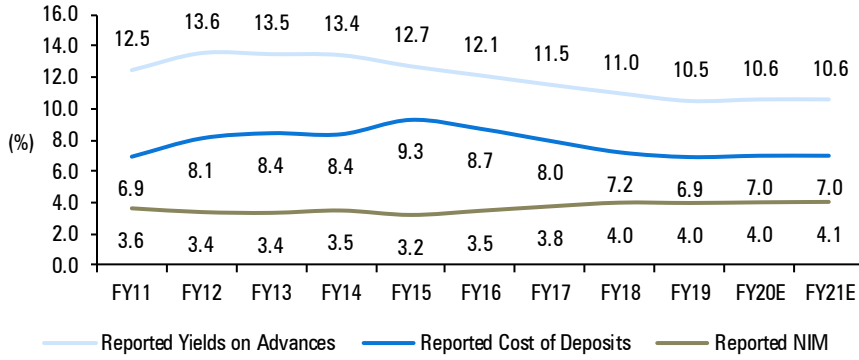
Source: Company, ICICI Direct Research

Exhibit 7: CASA ratio to broadly remain stable ahead



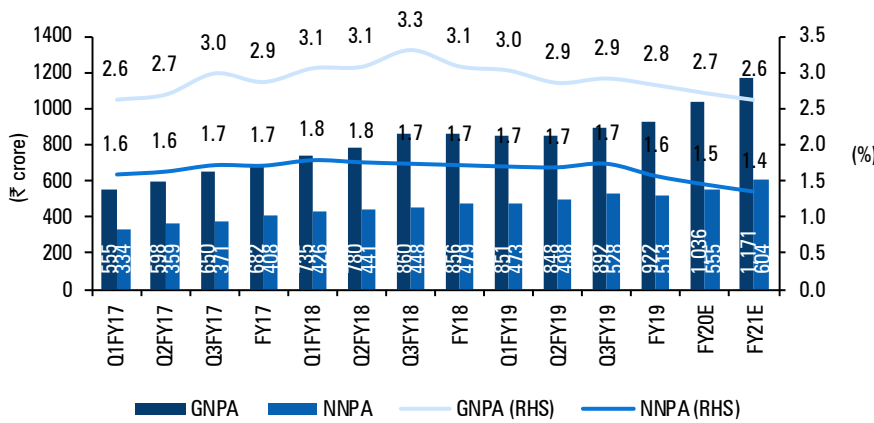
Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain steady at ~4%



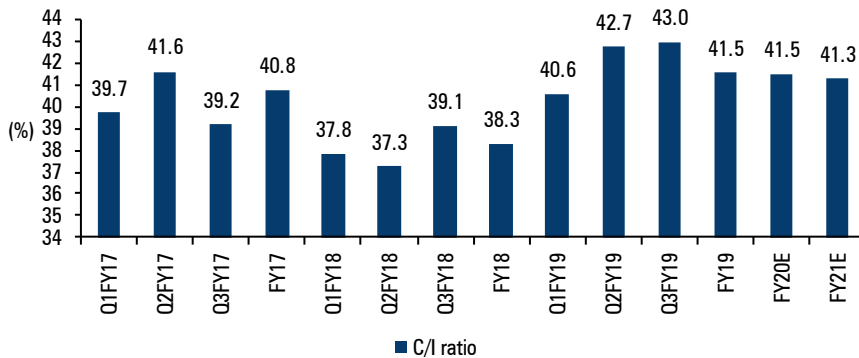
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality to remain acceptable



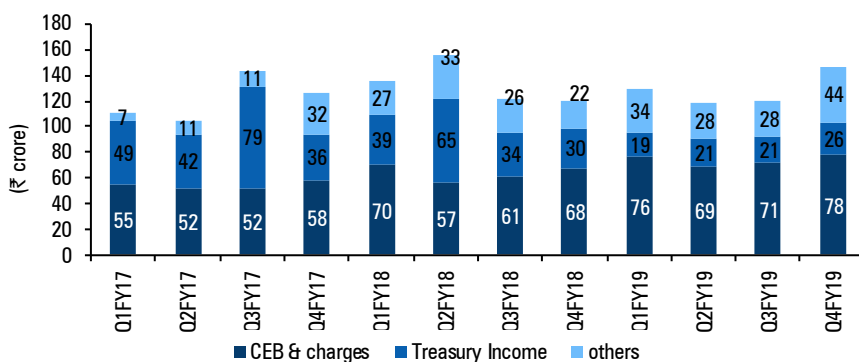
Source: Company, ICICI Direct Research

Exhibit 10: C-I ratio to remain steady



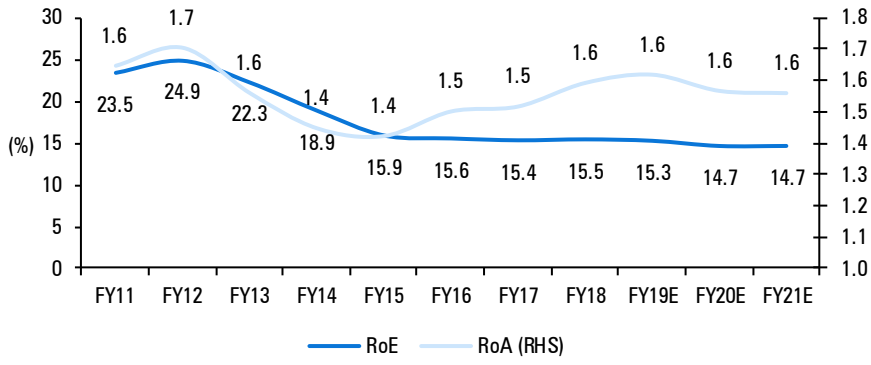
Source: Company, ICICI Direct Research

Exhibit 11: Other income break-up & trend



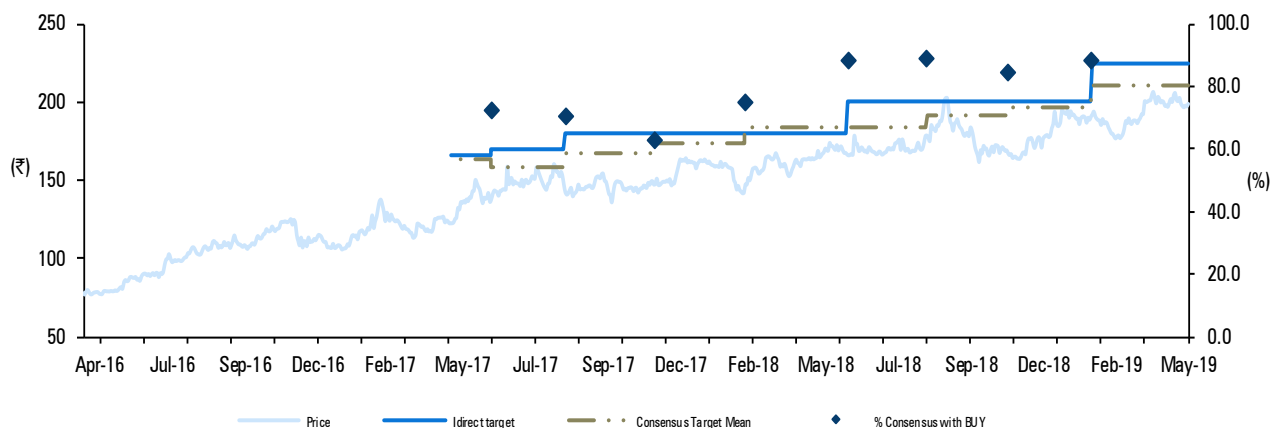
Source: Company, ICICI Direct Research

Exhibit 12: Better return ratios compared to peers



Source: Company, ICICI Direct Research

Exhibit 13: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 14: Top 10 Shareholders

Rank	Name	est Filing date	% S	Position	Change
1	HDFC Asset Management Co., Ltd.	31-03-2019	4.4%	32.23M	-0.47M
2	Life Insurance Corporation of India	31-03-2019	3.66%	26.90M	0
3	George Kaiser Family Foundation	31-03-2019	2.75%	20.21M	-0.10M
4	Capital Research Global Investors	31-03-2019	2.70%	19.85M	-5.11M
5	Wasatch Advisors, Inc.	31-03-2019	2.63%	19.32M	+0.50M
6	Axis Asset Management Company Limited	31-03-2019	2.62%	19.23M	+0.92M
7	L&T Investment Management Limited	31-03-2019	2.24%	16.47M	+1.55M
8	Vaidyanathan (Vilasini)	31-03-2019	2.06%	15.13M	0
9	Visalam (G)	31-03-2019	2.06%	15.13M	0
10	HDFC Life Insurance Company Limited	31-03-2019	2.04%	14.95M	-1.12M

Source: Reuters, ICICI Direct Research

Exhibit 15: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Sriram (V) HUF	+26.87M	+9.08M	Capital Research Global Investors	-15.14M	-5.11M
L&T Investment Management Limited	+4.59M	+1.55M	TVF Fund, Ltd.	-4.13M	-1.40M
Axis Asset Management Company Limited	+2.72M	+0.92M	Grandeur Peak Global Advisors, LLC	-3.53M	-1.31M
DHFL Pramerica Asset Managers Private Limited	+1.77M	+0.60M	HDFC Life Insurance Company Limited	-3.31M	-1.12M
Ocean Dial Asset Management Limited	+1.60M	+0.60M	HDFC Asset Management Co., Ltd.	-1.38M	-0.47M

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	-	-	-	-	-
FII	30.4	28.3	27.3	25.6	24.4
DII	20.4	23.0	24.5	25.2	26.7
Others	49.2	48.7	48.2	49.2	48.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	3,402.4	3,767.1	4,356.0	5,065.0
Interest Expended	1972.1	2155.7	2492.8	2894.1
Net Interest Income	1,430.3	1,611.4	1,863.2	2,170.9
growth (%)	19.3	12.7	15.6	16.5
Non Interest Income	532.1	514.4	568.6	628.8
Net Income	1962.4	2125.8	2431.9	2799.7
Staff cost	315.9	376.8	431.0	492.3
Other Operating expense	438.8	509.1	581.3	666.1
Operating profit	1207.8	1239.9	1419.5	1641.2
Provisions	417.5	315.1	394.7	458.8
Taxes	198.0	315.1	266.5	307.4
Net Profit	592.3	682.8	758.4	875.0
growth (%)	17.8	15.3	11.1	15.4
EPS (₹)	8.9	9.3	10.3	11.9

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	66.4	73.5	73.5	73.5
EPS (₹)	8.9	9.3	10.3	11.9
BV (₹)	62.7	65.9	75.9	87.5
ABV (₹)	55.4	58.9	68.3	79.3
P/E	22.4	21.5	19.4	16.8
P/BV	3.2	3.0	2.6	2.3
P/ABV	3.6	3.4	2.9	2.5
Yields & Margins (%)				
Net Interest Margins	4.0	4.0	4.0	4.05
Yield on assets	9.5	9.3	9.4	9.5
Avg. cost on funds	6.0	5.9	5.9	5.9
Yield on average advances	11.0	10.5	10.6	10.6
Avg. Cost of Deposits	6.1	5.9	5.9	5.9
Quality and Efficiency (%)				
Cost to income ratio	38.3	41.5	41.5	41.3
Credit/Deposit ratio	84.8	85.0	85.5	86.0
GNPA	3.1	2.8	2.7	2.6
NNPA	1.7	1.6	1.5	1.4
ROE	15.5	15.3	14.7	14.7
ROA	1.6	1.6	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ Crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	66.4	73.5	73.5	73.5
Reserves and Surplus	4096.8	4767.3	5502.5	6354.3
Networth	4163.2	4840.8	5575.9	6427.8
Deposits	32853.1	38447.9	44728.2	52036.6
Borrowings	1735.9	480.9	510.0	541.3
Other Liabilities & Provisions	1185.5	1489.2	1582.0	1682.3
Total	39,938	45,259	52,396	60,688
Applications of Funds				
Fixed Assets	223.1	247.9	271.1	294.1
Investments	7879.1	7712.2	8644.3	9689.4
Advances	27852.8	32673.3	38227.7	44726.4
Other Assets	1346.2	1662.1	1994.2	2390.9
Cash with RBI & call money	2636.4	2963.3	3258.9	3587.2
Total	39,938	45,259	52,396	60,688

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total assets	13.2	13.3	15.8	15.8
Advances	16.9	17.3	17.0	17.0
Deposit	9.1	17.0	16.3	16.3
Total Income	7.6	8.8	15.0	15.6
Net interest income	19.3	12.7	15.6	16.5
Operating expenses	9.5	17.4	14.3	14.4
Operating profit	21.5	2.7	14.5	15.6
Net profit	17.8	15.3	11.1	15.4
Net worth	16.6	16.3	15.2	15.3
EPS	6.6	4.2	11.1	15.4

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E		
Bank of Baroda (BANBAR)	123	140	Buy	42,043	-9.2	7.7	19.6	-13.4	16.1	6.3	1.0	0.9	0.8	-0.3	0.3	0.6	-5.8	4.7	11.4		
State Bank of India (STABAN)	345	400	Buy	307,587	-7.3	1.0	27.2	-47.2	355	12.7	2.8	2.5	1.8	-0.2	0.0	0.7	-3.0	0.5	12.3		
Indian Bank (INDIBA)	255	300	Buy	12,240	26.2	6.7	25.2	9.7	38.0	10.1	1.0	1.1	1.0	0.5	0.1	0.4	7.1	1.7	6.1		
Axis Bank (AXIBAN)	784	880	Buy	201,718	-1.0	22.2	37.5	-766.0	35.4	20.9	4.3	3.6	3.1	0.0	0.8	1.1	0.0	0.8	1.1		
City Union Bank (CITUNI)	204	240	Buy	15,017	8.9	9.3	10.3	22.9	22.0	19.8	3.7	3.5	3.0	1.6	1.6	1.6	15.5	15.3	14.7		
DCB Bank (DCB)	231	250	Buy	7,146	7.8	10.5	13.5	29.4	21.9	17.1	2.9	2.6	2.3	0.9	1.0	1.1	10.9	12.1	13.8		
Federal Bank (FEDBAN)	104	125	Buy	20,579	4.5	6.3	7.7	23.2	16.5	13.4	1.9	1.8	1.6	0.7	0.8	0.9	8.2	9.8	11.0		
HDFC Bank (HDFBAN)	2,438	2,700	Buy	664,352	67.4	77.4	97.9	36.2	31.5	24.9	6.1	4.6	4.0	1.8	1.8	2.0	17.9	16.5	16.7		
IndusInd Bank (INDBA)	1,495	1,860	Buy	90,119	60.1	67.5	89.8	24.9	22.1	16.6	3.9	3.3	3.0	1.8	1.6	1.8	16.2	15.8	18.2		
Jammu & Kashmir Bk(JAMKAS)	58	65	Buy	3,205	3.6	8.3	14.7	15.8	6.9	3.9	1.0	0.9	0.9	0.2	0.5	0.7	3.4	7.3	11.8		
Kotak Mahindra Bank (KOTMAH)	1,504	1,500	Hold	287,175	21.4	25.5	30.4	70.2	59.0	49.5	8.0	7.0	6.2	1.7	1.7	1.7	12.5	12.1	12.7		
Yes Bank (YESBAN)	143	180	Hold	33,125	18.3	8.4	13.3	7.8	17.0	10.8	1.9	1.5	6.9	1.6	0.6	1.0	17.6	7.3	18.4		
Bandhan Bank (BANBAN)	605	725	Buy	72,170	11.3	16.4	22.0	12.7	8.7	6.5	1.9	1.6	1.3	3.6	3.9	4.0	19.5	19.0	21.1		

Source: Company, ICICI Direct Research



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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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