

Outlook on MSME exposure remains bit cautious

City union bank reported healthy operating profit of ₹ 351 crore on back of higher other income (led by treasury gain of ₹ 45 crore). Growth in NII came marginally lower at 11.3% YoY to ₹ 417 crore, led by contraction in margins. Margins contracted by 13 bps YoY & 29 bps QoQ to 4.11%, on back of rise in cost of fund. Credit growth came lower compared to previous run rate at 14.2% at ₹ 32229 crore with growth in MSME & wholesale trader book at 12% & 15% YoY respectively. Deposit growth came healthy at 16% YoY at ₹ 39077 crore on back of ~20% YoY & 17% YoY growth in savings & term deposit. However, accretion in current account remained muted. Accordingly, CASA ratio stood at 23.4%, down 48 bps YoY & 178 bps QoQ.

Bank's asset quality witnessed deterioration, as absolute GNPA surged 10% QoQ to ₹ 1076 crore. Fresh slippages continue to remain elevated at ₹ 200 crore led by one account within educational sector leading to 39 bps QoQ increase in GNPA ratio to 3.34%. However, management continue to re-iterate guidance of slippages ratio to remain in range of 1.75-2% of closing advances.

Consistent loan growth & steady margins to drive earnings

While the management has guided for steady loan growth of 18-20% YoY led by growth in MSME & retail segments, it expects marginal moderation in margins, going ahead. Overall, we expect loan growth at 17% CAGR to ₹ 44726 crore in FY19-21E & 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 expected to remain steady at ~1.6% & ~15% respectively.

Marginal cautious on MSME exposure

The management's strategy of disbursing granular loan has aided bank in maintaining best in class asset quality compared to peers. Given major exposure to MSME sector, we remain a bit cautious on growth as well asset quality. On a positive note, the bank has low exposure towards NBFC (0.8% of loan book) & has no exposure to IL&FS & other troubled names. Overall, we expect GNPA, NNPA ratios at ~2.6%, 1.4% respectively, by FY21E.

Valuation & Outlook

The bank has consistently delivered healthy business growth along with keeping 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%, strong margins and controlled asset quality. Though, we remain cautious on MSME exposure from asset quality perspective, however, we continue to prefer CUB as it is well placed among regional players and comfortable on the capital front with tier-I 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 with unchanged target price of ₹ 240 implying a multiple of 2.7x FY21E BV.



Particulars

Particulars	Amount
Market Capitalisation	₹ 14462 crore
GNPA (Q1FY20)	₹ 1076 crore
NNPA (Q1FY20)	₹ 600 crore
NIM (Q1FY20)(%)	4.1
52 week H/L	220 /157
Networth (Q4FY19)	₹ 4841 crore
Face value	₹ 1
DII Holding (%)	28.3
FII Holding (%)	24.2

Key Highlights

- Management re-iterated its credit growth guidance of 18-20% for FY20E.
- Asset quality was impacted as one educational institute with exposure greater than ₹ 50 crore slipped into NPA
- Maintain **BUY** with an unchanged target price of ₹ 240

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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	3.5	3.4	3.2	2.7	2.4	
P/BV	3.1	3.0	2.8	2.5	2.1	
P/E	22.3	20.9	20.1	18.1	15.7	
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

	Q1FY20	11FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	417	428	375	11.3	421	-0.9	Contraction in margins coupled with lower credit growth led to marginal impact on growth compared to our estimates
NIM (%)	4.11	4.3	4.2	-13 bps	4.4	-29 bps	Higher cost of funds impacted margins
Other Income	163	135	129	26.5	147	11.2	Higher profit from treasury aided other income
Net Total Income	580	563	504	15.2	567	2.2	
Staff cost	100	96	87	15.0	91	9.8	
Other Operating Expenses	128	142	117	9.6	138	-7.2	
PPP	351	325	299	17.4	338	4.0	PPP traction higher owing to higher other income
Provision	116	76	78	48.9	91	27.7	
PBT	236	249	222	6.4	247	-4.6	
Tax Outgo	50	65	60	-16.7	72	-30.6	Tax write back on back of higher provisions in previous year
PAT	186	184	162	14.9	175	6.0	PAT growth largely aided by higher other income & lower tax outgo
Key Metrics							
GNPA	1,076	1,026	851	26.4	977	10.1	Slippages of ₹ 200 crore, largely on account of educational institute
NNPA	600	621	473	26.7	591	1.4	
Advances	32,229	33,163	28,215	14.2	32,673	-1.4	Advances growth marginally lower than its run rate. Management reiterated its 16-18% growth guidance
Deposits	39,077	39,084	33,597	16.3	38,448	1.6	CASA ratio witnesses 178 bps QoQ to 23.44%

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1,863	1,863	0.0	2171	2,171	0.0
Pre Provision Profit	1,420	1,420	0.0	1641	1,641	0.0
NIM (%)	4.0	4.0	0 bps	4.1	4.1	0 bps
PAT	758	758	0.0	875	875	0.0
ABV (₹)	68.3	68.3	0.0	79	79.3	0.0

Source: Company, ICICI Direct Research

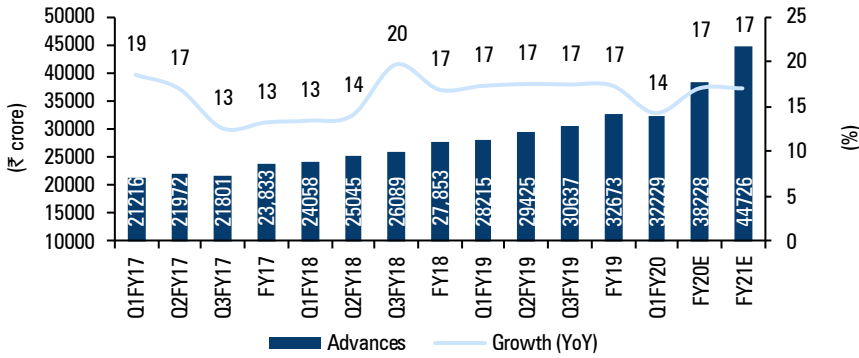
Exhibit 3: Assumptions

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

Source: Company, ICICI Direct Research

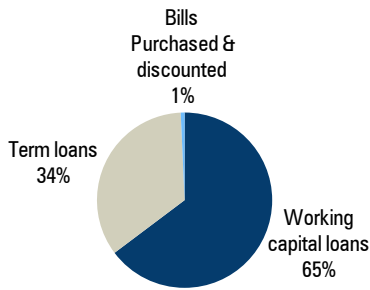
Story in Charts

Exhibit 4: Credit traction to remain steady at 17-18% CAGR



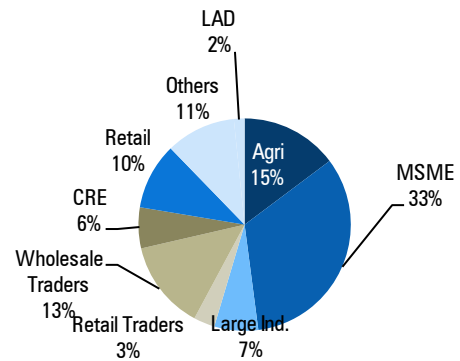
Source: Company, ICICI Direct Research

Exhibit 5: Loan break-up – Product wise



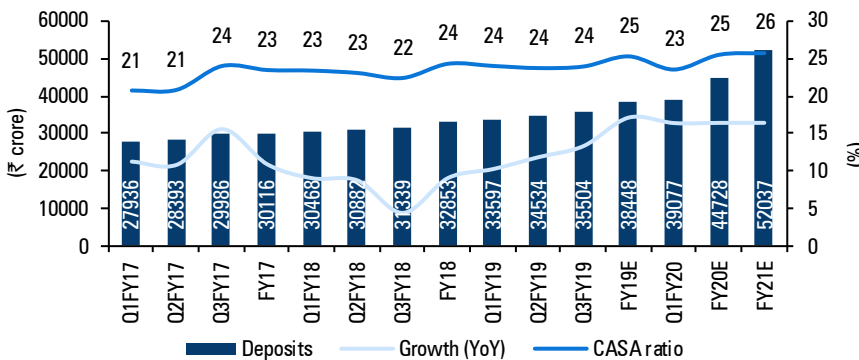
Source: Company, ICICI Direct Research

Exhibit 6: Loan break-up – Sector wise



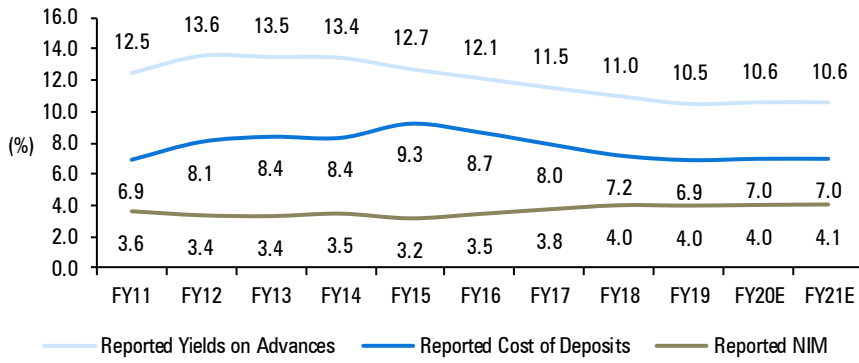
Source: Company, ICICI Direct Research

Exhibit 7: CASA ratio to broadly remain steady



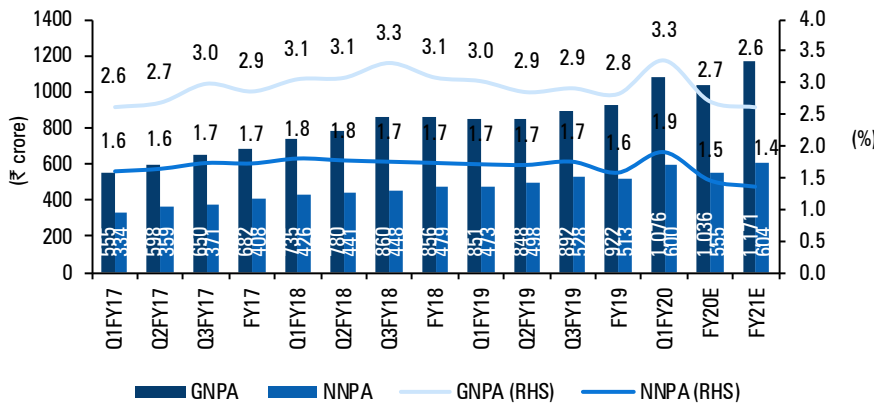
Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain steady at ~4%



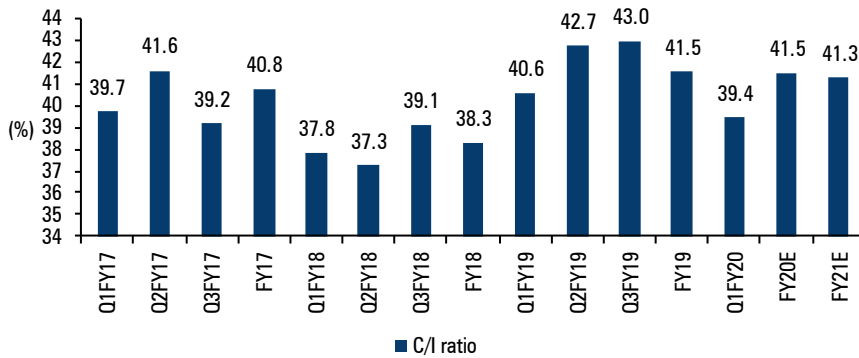
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality to remain acceptable



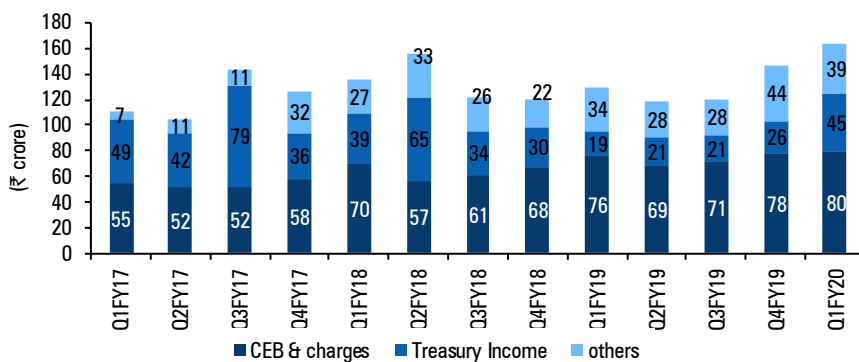
Source: Company, ICICI Direct Research

Exhibit 10: C-I ratio to remain steady



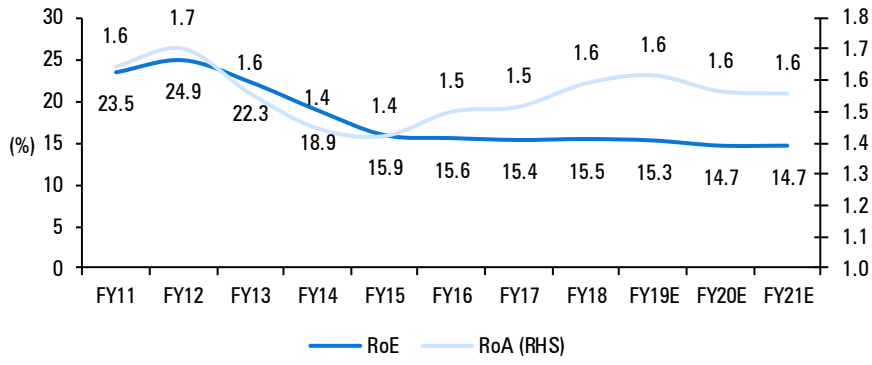
Source: Company, ICICI Direct Research

Exhibit 11: Other income break-up & trend



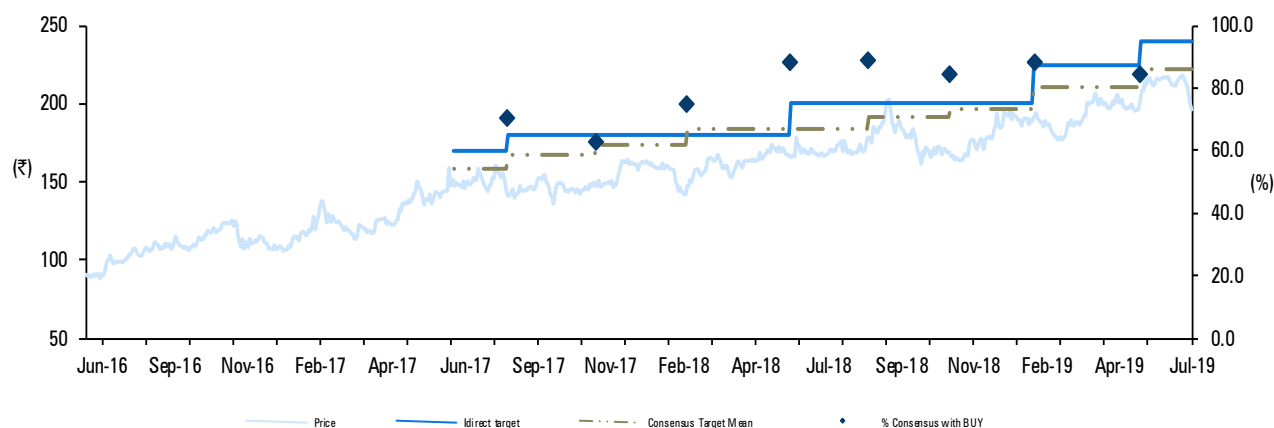
Source: Company, ICICI Direct Research

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	Wasatch Advisors, Inc.	31-03-2019	2.73%	20.03M	+1.21M
5	Capital Research Global Investors	31-03-2019	2.70%	19.85M	-5.11M
6	Axis Asset Management Company Limited	31-05-2019	2.70%	19.83M	+0.03M
7	L&T Investment Management Limited	31-05-2019	2.29%	16.82M	+0.13M
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
Wasatch Advisors, Inc.	+3.58M	+1.21M	TVF Fund, Ltd.	-4.13M	-1.40M
Ocean Dial Asset Management Limited	+1.60M	+0.60M	HDFC Life Insurance Company Limited	-3.31M	-1.12M
Norges Bank Investment Management (NBIM)	+1.65M	+0.59M	HDFC Asset Management Co., Ltd.	-1.38M	-0.47M
Manulife Asset Management (Asia)	+1.49M	+0.53M	Aberdeen Standard Investments (Asia) Limited	-0.86M	-0.32M

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	-	-	-	-	-
FII	28.3	27.3	25.6	24.4	24.2
DII	23.0	24.5	25.2	26.7	28.3
Others	48.7	48.2	49.2	48.9	47.5

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	20.9	20.1	18.1	15.7
P/BV	3.0	2.8	2.5	2.1
P/ABV	3.4	3.2	2.7	2.4
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	FY18	FY19	Y20E		
Bank of Baroda (BANBAR)	101	140	Buy	38,679	-9.2	7.7	18.5	-10.9	13.1	5.4	0.8	1.2	1.0	-0.3	0.4	0.6	-5.8						9.7	
State Bank of India (STABAN)	296	400	Buy	263,722	-7.3	1.0	23.9	-40.5	305	12.4	2.4	2.1	1.6	-0.2	0.0	0.6	-3.0	0.5	10.8					
Indian Bank (INDIBA)	198	220	Hold	9,737	26.2	6.7	20.9	7.6	29.6	9.5	0.8	0.9	0.9	0.5	0.1	0.3	7.1	1.7	5.1					
Axis Bank (AXIBAN)	673	850	Buy	176,412	-1.0	22.2	28.3	-657.8	30.4	23.8	3.7	3.1	2.3	0.0	0.8	0.9	0.0	0.8	0.9					
City Union Bank (CITUNI)	197	240	Buy	14,470	8.9	9.3	10.3	22.1	21.2	19.1	3.6	3.3	2.9	1.6	1.6	1.6	15.5	15.3	14.7					
DCB Bank (DCB)	197	250	Buy	6,116	7.8	10.5	12.6	25.2	18.7	15.7	2.5	2.3	2.0	0.9	1.0	1.0	10.9	12.1	12.9					
Federal Bank (FEDBAN)	89	125	Buy	17,708	4.5	6.3	7.7	20.0	14.2	11.5	1.6	1.5	1.4	0.7	0.8	0.9	8.2	9.8	11.1					
HDFC Bank (HDFBAN)	2,279	2,400	Hold	623,209	67.4	77.4	93.7	33.8	29.4	24.3	5.7	4.3	3.8	1.8	1.8	1.9	17.9	16.5	16.0					
IndusInd Bank (INDBA)	1,430	1,550	Hold	99,063	60.1	55.0	92.3	23.8	26.0	15.5	3.7	3.5	2.9	1.8	1.3	1.8	16.2	13.1	19.0					
Jammu & Kashmir Bk(JAMKAS)	44	48	Hold	2,475	3.6	8.3	9.4	12.2	5.3	4.7	0.7	0.7	0.7	0.2	0.5	0.5	3.4	7.3	7.7					
Kotak Mahindra Bank (KOTMAH)	1,526	1,500	Hold	291,339	21.4	25.5	30.4	71.2	59.9	50.2	8.1	7.1	6.3	1.7	1.7	1.7	12.5	12.1	12.7					
Yes Bank (YESBAN)	85	75	Reduce	19,689	18.3	6.4	5.8	4.6	13.3	14.6	0.8	0.9	0.9	1.7	0.4	0.4	17.6	5.6	5.5					
Bandhan Bank (BANBAN)	494	650	Buy	58,880	11.3	16.4	22.0	7.5	5.2	3.9	1.1	0.9	0.8	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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