

Retail Equity Research (South India Focus)

City Union Bank Ltd

Banking

BSE CODE : 532210

NSE CODE: CUB

BLOOMBERG CODE: CUBK:IN

SENSEX : 36,675

ACCUMULATE

12M Investment Period

Rating as per Mid Cap

CMP Rs. 131 TARGET Rs. 148 RETURN 13% 
(Closing: 07-07-20)

KEY CHANGES:

TARGET

RATING

EARNINGS

Attractive valuation; Concerns on asset quality

City Union Bank Ltd (CUB), the oldest private sector bank in India, is a mid-sized commercial bank headquartered at Tamil Nadu, having a network of 700 branches and 1,793 ATMs spread across the country and a loan book size of Rs.34,576 Cr.

- CUB reported net loss of Rs.95 Cr on account of higher provision (Rs.450 Cr) due to elevated NPA and Covid-19 related concerns.
- Asset quality deteriorated due to high slippage during the quarter with GNPA/NNPA at 4.09%/2.29%.
- Total Business grew 5% YoY with Deposit growing at 6% and Advances at 5%.
- ROA for FY20 has declined to 1% against 1.64% as on FY19 and ROE declined from 15.25% to 9.47% during the same period. We expect ROA/ROE to be 1.5/13.1% by FY22.
- We expect that current uncertainties for FY21 are already factored and with improvement in ROA and ROE during FY22E, we value the stock at 2.0x on FY22E Adj BVPS of Rs.74.1 with a target price of Rs.148 and recommend Accumulate rating.

Moderate growth in business

CUB reported 5% growth in total business with deposits growing at 6% and advances at 5% on YoY basis. Term deposit constituting 75% of total deposit grew by 6.6%/0.4% on YoY/QoQ basis. Net Interest Income de-grew by 0.3% while NIM stood at 3.91% for Q4FY20 (against 3.96%- Q3FY20) and 3.98% as on FY20 (against 4.32%- FY19). Pre-provision profit registered a decline of 0.8% on YoY basis and an improvement of 8.5% sequentially. Company registered net loss of Rs.95cr on account of elevated provision of Rs.450cr during Q4FY20. During the quarter bank has made a provision of Rs.125 Cr on account of Covid-19 which includes an adhoc provision of Rs.102 Cr over and above the RBI prescribed norms. ROA/ROE for FY20 has declined to 1%/9.47% and expect it to at 1.1%/10.3% for FY21E and 1.5%/13.1% for FY22E. We expect deposits and advances to grow at a CAGR of 8.2% and 10.6% over FY21-22E.

Asset quality deteriorated due to higher slippage

CUB's asset quality was deteriorated on account of higher slippage during the quarter. Company has reported slippage of Rs.481 Cr during the quarter against Rs.630 Cr as on 9MFY20. Slippage for the year stands at Rs.1110 Cr with slippage ratio of 3.21%. GNPA and NNPA stands elevated at 4.09% and 2.29% respectively against 3.50% and 1.95% as on FY19. This increase in NPA level is on account of higher slippages as recovery got impacted due to lockdown. According to management, the potentially stressed sectors accounts for ~10% of total lending and expects 20% of this (2% of total lending) to slip in coming quarters. Management expects slippage ratio for FY21 at 3.25-3.5%. However, we have estimated slippage ratio at 3.7% for FY21E. We therefore estimate our GNPA /NNPA levels for FY21E and FY22E at 5.2/2.8% and 5.0/2.6% respectively. Even though NPA level looks elevated, we expect minimum risk as 99% of total lending are secured in nature.

Moratorium Status

Bank has extended the option of moratorium to all its borrowers. Borrowers who has paid for two or more months comprised 48% of the exposure and ~38% paid for all three months. Outstanding balance of accounts which are in default as on 29th Feb 2020 is Rs.645 Cr of which SMA 0 consist of Rs.175 Cr, SMA 1 of Rs.348 Cr and SMA 2 of Rs.122 Cr. The outstanding amount of Rs.645 Cr comprises of 1.86% of total loan portfolio. Bank has restructured 151 MSME accounts as of FY20 amounting to Rs.297.1 Cr (Rs.118 Cr during Q4FY20) and expects to restructure Rs.300-400 Cr during FY21.

Outlook & Valuations

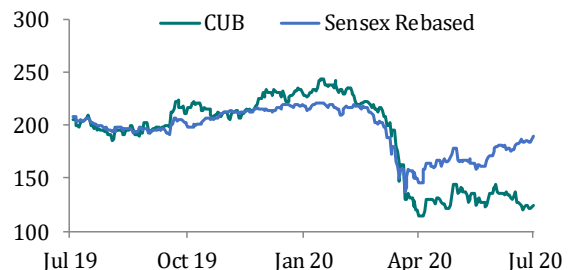
We expect deposits and lending to grow at a CAGR of 8.2% and 10.6% over FY21-22E. Even though we expect decline in asset quality, we believe that the current uncertainties for FY21 are already factored. Expecting ROA/ROE to be 1.5/13.1% by FY22, we value the stock at 2.0x FY22E Adj BVPS with a target price of Rs 148 and recommend Accumulate rating.

Company Data

Market Cap (Rs cr)	9,659
Outstanding Shares (cr)	73.7
Free Float	100%
Dividend Yield	0.8%
52 week high (Rs)	249
52 week low (Rs)	110
6m average volume (cr)	0.16
Beta	1.01
Face value (Rs)	1

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	0	0	0
FPI's	23	23	21
MFs/Institutions	30	30	32
Public	47	47	47
Total	100	100	100
Promoter Pledge	-	-	-

Price Performance	3 month	6 month	1 year
Absolute Return	8.5%	-45.9%	-41.4%
Absolute Sensex	30.6%	-13.1%	-9.7%
Relative Return*	-22.1%	-32.8%	-31.6%



Standalone (Rs Cr)	FY20A	FY21E	FY22E
NII	1,675	1,755	1,919
Growth	4.0%	4.7%	9.4%
NIM(%)	3.92	3.86	3.96
Provisions	755	602	528
Adj. PAT	476	571	790
Growth	-30.2%	19.8%	38.4%
Adj. EPS	6.6	7.9	10.9
Growth	-30.2%	19.8%	38.4%
BVPS	71.8	78.6	88.6
Adj BVPS	61.5	65.3	74.1
P/E	19.9	16.6	12.0
P/B	1.8	1.6	1.4
Adj. P/B	2.1	1.9	1.7
ROE (%)	9.4	10.3	13.1

Cyril Charly
Research Analyst

Quarterly Financials

(Rs Cr)	Q4FY20	Q3FY20	QoQ Growth (%)	Q4FY19	YoY Growth (%)	FY20	FY19	YoY Growth (%)
Interest Income	1,042	1,061	-1.8	985	5.8	4,169	3,767	10.7
Interest Expense	622	634	-1.8	564	10.3	2,493	2,156	15.7
Net Interest Income (NII)	419	427	-1.8	421	-0.3	1,675	1,611	4.0
Fee and Other Income	179	142	25.9	147	22.1	680	514	32.2
Total Income	599	570	5.1	567	5.5	2,355	2,126	10.8
Expenditure	264	261	1.0	230	14.8	1,014	886	14.4
Pre-Provision Profit	335	308	8.7	338	-0.8	1,341	1,240	8.2
Provision	450	81	456.0	91	396.7	755	315	139.6
PBT	-115	227	-150.7	247	-146.7	586	925	-36.6
Tax	-20	35	-157.1	72	-127.8	110	242	-54.5
Reported PAT	-95	192	-149.5	175	-154.4	476	683	-30.2
Adjustment	-	-	-	-		-	-	-
Adj. PAT	-95	192	-149.5	175	-154.4	476	683	-30.2
Diluted EPS (Rs)	-1.28	2.58	-149.6	2.37	-154.0	6.41	9.49	-32.5

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	1,752	1,984	1,755	1,919	0.2%	-3.3%
Net Interest Margin (%)	3.84	3.98	3.86	3.96	2bps	-2bps
Pre-Provision Profit	1,437	1,694	1,368	1,588	-4.8%	-6.3%
Adj. PAT	713	841	571	790	-19.9%	-6.1%
Diluted EPS (Rs)	9.9	11.6	7.9	10.9	-20.2%	-6.0%

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	3,402	3,767	4,169	4,340	4,620
Interest Expense	1,972	2,156	2,493	2,586	2,701
Net Int. Income	1,430	1,611	1,675	1,755	1,919
Change	19.3%	12.7%	4.0%	4.7%	9.4%
Non Int. Income	532	514	680	637	739
Total Income	1,962	2,126	2,355	2,392	2,658
Operating Expenses	16.6%	8.3%	10.8%	1.6%	11.1%
Pre Prov. Profit	755	886	1,014	1,024	1,070
Change	1,208	1,240	1,341	1,368	1,588
Prov. & Conting.	418	315	755	602	528
PBT	790	925	586	766	1,061
Change	14.0%	17.1%	-36.6%	30.7%	38.4%
Tax	198	242	110	195	270
Tax Rate (%)	25%	26%	19%	25%	26%
Reported PAT	592	683	476	571	790
Adj*	0	0	0	0	0
Adj. PAT	592	683	476	571	790
Change	17.7%	15.3%	-30.2%	19.8%	38.4%
No. of shares (Cr)	66	73	74	74	74
EPS (Rs)	9.2	9.5	6.6	7.9	10.9
Change	11.0%	3.4%	-30.2%	19.8%	38.4%
DPS (Rs)	1.1	0.9	0.5	1.0	1.0

BALANCE SHEET

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	1,862	1,993	2,030	2,006	1,008
Loans & Advances	27,853	32,673	33,927	36,113	41,471
Investments	7,879	7,712	9,117	9,481	9,861
Gross Fixed Assets	603	690	680	710	780
Net Fixed Assets	223	250	245	192	179
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	2,120	2,630	4,414	4,731	5,371
Total Assets	39,937	45,259	49,734	52,538	57,904
Deposits	32,853	38,448	40,832	43,107	47,814
Debt Funds	1,736	481	2,032	1,792	1,575
Other Liabilities	1,186	1,489	1,573	1,842	1,983
Provisions	0	0	0	0	0
Equity Capital	66	73	74	74	74
Reserves & Surplus	4,097	4,767	5,222	5,724	6,459
Shareholder's Funds	4,163	4,841	5,296	5,798	6,533
Total Liabilities	39,937	45,259	49,734	52,538	57,904
BVPS (Rs)	62.6	65.9	71.8	78.6	88.6
Change	5.4%	5.2%	9.4%	9.5%	12.7%
Adj. BVPS (Rs)	55.5	57.9	61.5	65.3	74.1
Change	5.5%	4.3%	6.3%	6.1%	13.5%

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab. & Return					
Interest yield (%)	10.2	9.9	9.7	9.5	9.5
Cost of funds (%)	6.0	5.9	5.9	5.7	5.7
Spread(%)	4.2	4.0	3.8	3.8	3.8
NIM (%)	4.3	4.2	3.9	3.9	4.0
ROE (%)	15.3	15.2	9.4	10.3	13.1
ROA(%)	1.6	1.6	1.0	1.1	1.5
Business Ratios					
Loan growth (%)	16.9	17.3	3.8	6.4	14.8
Deposit growth (%)	9.1	17.0	6.2	5.6	10.9
C/D ratio(%)	84.8	85.0	83.1	83.8	86.7
Operating Ratios					
Cost to Income (%)	38.5	41.7	43.0	42.8	40.2
CASA (%)	24.2	25.2	25.0	25.4	26.0
Asset Quality					
GNPA (%)	3.0	3.0	4.1	5.2	5.0
NNPA (%)	1.7	1.8	2.3	2.8	2.6
Capital Adequacy					
CAR (%)	16.2	15.6	15.4	15.2	15.1
Valuation					
P/E (x)	14.3	13.9	19.9	16.6	12.0
P/B (x)	2.1	2.0	1.8	1.6	1.4
Adj. P/B (x)	2.4	2.3	2.1	1.9	1.7

Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
02.Jun.17	Hold	158
10.Aug.17	Hold	158
10.Nov.17	Hold	176
07.Mar.18	Reduce	168
06.Jun.18	Reduce	176
28.Aug.18	Reduce	186
06.Nov.18	Reduce	160
30.Jan.19	Reduce	168
22.May.19	Reduce	196
14.Aug.19	Reduce	184
18.Feb.20	Reduce	201
22.Apr.20	Hold	139
08 July 20	Accumulate	148

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

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