

Retail Equity Research (South India Focus)

City Union Bank Ltd

Banking

BSE CODE : 532210

NSE CODE: CUB

BLOOMBERG CODE: CUBK:IN

SENSEX : 38,310

BUY

12M Investment Period

Rating as per Mid Cap

CMP Rs. 117 TARGET Rs. 148 RETURN 27% 
(Closing: 13-08-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Decent quarter amidst uncertainties

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.34,536cr.

- **Total Business** grew 6% YoY with deposits growing at 5% and advances at 7%.
- **Net Interest Margin (NIM)** improved 7bps sequentially to 3.98% during the quarter.
- **Lower recognition of slippages** led to reduction in GNPA/NNPA to 3.90/2.11% from 4.09/2.29% during Q4FY20.
- **Despite moratorium** provided, 70% of borrowers paid full instalments till July 2020 and ~88% paid at least one instalment.
- **We expect that current uncertainties** for FY21 are already factored and with improvement seen in this quarter, we maintain our valuation at 2.0x on FY22E Adj BVPS of Rs.74 with a target price of Rs.148 and recommend Buy rating.

Moderate growth in business

CUB reported 6% growth in total business with deposits growing at 5% and advances at 7% on YoY basis. CASA grew 10% with Savings deposit growing at 14%. Bank will increase its focus on Gold and ECLGS advances during the year. Net Interest Income grew by 4.8% on YoY basis and 4.2% sequentially while NIM showed an improvement of 7bps QoQ at 3.98%. Pre-provision profit registered a marginal growth of 1.3% on YoY basis whereas registered decline of 17% in net profit due to higher provisioning. During the quarter bank has made a provision of Rs.157cr including Covid related provision of 100cr over and above RBI prescribed norms. Provision Coverage Ratio as on Q1FY21 is at 68%. We expect deposits and advances to grow at a CAGR of 7.7% and 10.6% over FY21-22E.

Improved NPA level due to lower recognition of slippage

CUB's GNPA and NNPA levels stands at 3.90% and 2.11% against 4.09% and 2.29% during FY20 during the quarter due to lower recognition of slippages. As on 31st July 2020, total SMA stands at Rs.628cr with SMA 0 of Rs.204cr, SMA 1 of Rs.341cr and SMA 2 of Rs.83cr. The outstanding amount of Rs.628 Cr comprises of 1.82% of total loan portfolio. Bank has restructured 17 accounts valuing Rs.68 Crs during the quarter. As on Q1FY21, the total number of restructured accounts stood at 166 amounting to Rs.388cr which is about 1.12% of gross advances. We expect asset quality to weaken significantly in coming quarters once moratorium is lifted. We estimate slippage for FY21 at 3.5% and FY22 at 2.7% and GNPA/NNPA at 5.32/2.77% in FY21 and 5.04/2.65% in FY22. Even though NPA level looks elevated, we expect minimum risk as 99% of total lending are secured in nature which helps in easy recovery.

Moratorium Status

Bank has extended the option of moratorium to all its borrowers. Borrowers who has paid all 4 instalments till June 2020 is about 70%. 73% borrowers paid minimum 3 instalments and 77% paid minimum 2 instalments. 87.55% of borrowers paid at least one instalment during the moratorium period. As the business activities are improving, management sees further improvement in collection going forward. Through ECLGS Scheme bank aims to disburse about Rs.1632cr over and about Rs.1218cr disbursed as on Q1FY21.

Outlook & Valuations

We expect deposits and lending to grow at a CAGR of 7.7% and 10.6% over FY21-22E. Even though we expect decline in asset quality in the upcoming quarters, we believe that the current uncertainties for FY21 are already factored. With the improvement seen in this quarter, we maintain our valuation at 2.0x FY22E Adj BVPS with a target price of Rs 148 and recommend Buy rating.

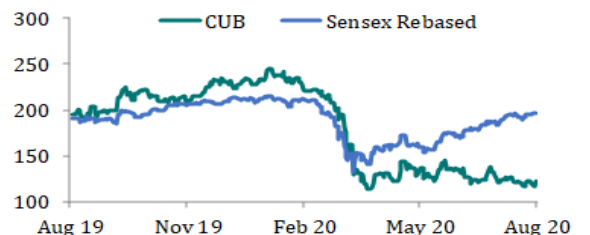
Company Data

| | |
|-------------------------|------|
| Market Cap (Rs cr) | 9032 |
| 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) | 0.19 |
| Beta | 1.00 |
| Face value (Rs) | 1 |

| Shareholding (%) | Q3FY20 | Q4FY20 | Q1FY21 |
|------------------|--------|--------|--------|
| Promoters | 0 | 0 | 0 |
| FPI's | 23 | 23 | 22 |
| MFs/Institutions | 30 | 30 | 30 |
| Public | 47 | 47 | 48 |
| Total | 100 | 100 | 100 |
| Promoter Pledge | - | - | - |

| Price Performance | 3 month | 6 month | 1 year |
|-------------------|---------|---------|--------|
| Absolute Return | -10.8% | -44.9% | -36.3% |
| Absolute Sensex | 23.8% | -6.7% | 3.1% |
| Relative Return* | -34.6% | -38.1% | -39.5% |

*over or under performance to benchmark index



| Standalone (Rs Cr) | FY20A | FY21E | FY22E |
|--------------------|-------|-------|-------|
| NII | 1,675 | 1,769 | 1,948 |
| Growth(%) | 4.0 | 5.6 | 10.1 |
| NIM(%) | 4.00 | 3.92 | 3.97 |
| Provisions | 755 | 599 | 532 |
| Adj. PAT | 476 | 600 | 811 |
| Growth(%) | -30.2 | 26.0 | 35.2 |
| Adj. EPS | 6.6 | 8.3 | 11.2 |
| Growth(%) | -30.2 | 26.0 | 35.2 |
| BVPS | 71.8 | 79.0 | 89.0 |
| Adj BVPS | 61.5 | 65.3 | 74.0 |
| P/E | 17.7 | 14.1 | 10.4 |
| P/B | 1.6 | 1.5 | 1.3 |
| Adj. P/B | 1.9 | 1.8 | 1.6 |
| ROE (%) | 9.4 | 10.8 | 13.1 |

Cyril Charly
Research Analyst

Quarterly Financials

| (Rs Cr) | Q4FY20 | Q3FY20 | QoQ Growth (%) | Q4FY19 | YoY Growth (%) |
|---------------------------|--------|--------|----------------|--------|----------------|
| Interest Income | 1,049 | 1,042 | 0.7 | 1,029 | 2.0 |
| Interest Expense | 612 | 622 | -1.6 | 612 | 0.0 |
| Net Interest Income (NII) | 437 | 419 | 4.2 | 417 | 4.8 |
| Fee and Other Income | 161 | 179 | -10.4 | 163 | -1.7 |
| Total Income | 598 | 599 | -0.2 | 580 | 3.0 |
| Expenditure | 242 | 264 | -8.4 | 229 | 5.6 |
| Pre-Provision Profit | 356 | 335 | 6.3 | 351 | 1.3 |
| Provision | 157 | 450 | -65.1 | 116 | 35.6 |
| PBT | 199 | -115 | - | 236 | -15.5 |
| Tax | 45 | -20 | - | 50 | -10.0 |
| Reported PAT | 154 | -95 | - | 186 | -17.0 |
| Adjustment | - | - | - | - | - |
| Adj. PAT | 154 | -95 | - | 186 | -17.0 |
| Diluted EPS (Rs) | 2.07 | -1.28 | - | 2.80 | -26.1 |

Change in Estimates

| | Old estimates | | New estimates | | Change % | |
|---------------------------|---------------|-------|---------------|-------|----------|-------|
| Year / Rs cr | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E |
| Net Interest Income (NII) | 1,755 | 1,919 | 1,769 | 1,948 | 0.8 | 1.5 |
| Net Interest Margin (%) | 3.86 | 3.96 | 3.92 | 3.97 | 6bps | 1bps |
| Pre-Provision Profit | 1,368 | 1,588 | 1,404 | 1,621 | 2.6 | 2.1 |
| Adj. PAT | 571 | 790 | 600 | 811 | 5.1 | 2.7 |
| Diluted EPS (Rs) | 7.9 | 10.9 | 8.3 | 11.2 | 5.1 | 2.8 |

PROFIT & LOSS

| Y.E March (Rs Cr) | FY18A | FY19A | FY20A | FY21E | FY22E |
|--------------------|-------|-------|--------|-------|-------|
| Interest Income | 3,402 | 3,767 | 4,169 | 4,279 | 4,672 |
| Interest Expense | 1,972 | 2,156 | 2,493 | 2,511 | 2,725 |
| Net Int. Income | 1,430 | 1,611 | 1,675 | 1,769 | 1,948 |
| Change | 19.3% | 12.7% | 4.0% | 5.6% | 10.1% |
| Non Int. Income | 532 | 514 | 680 | 650 | 755 |
| Operating Income | 1,962 | 2,126 | 2,355 | 2,418 | 2,703 |
| Change | 16.6% | 8.3% | 10.8% | 2.7% | 11.8% |
| Operating Exp. | 755 | 886 | 1,014 | 1,014 | 1,082 |
| Pre Prov. Profit | 1,208 | 1,240 | 1,341 | 1,404 | 1,621 |
| Prov. & Conting. | 418 | 315 | 755 | 599 | 532 |
| PBT | 790 | 925 | 586 | 805 | 1,089 |
| Change | 14.0% | 17.1% | -36.6% | 37.4% | 35.2% |
| Tax | 198 | 242 | 110 | 205 | 278 |
| Tax Rate (%) | 25% | 26% | 19% | 25% | 26% |
| Reported PAT | 592 | 683 | 476 | 600 | 811 |
| Adj* | 0 | 0 | 0 | 0 | 0 |
| Adj. PAT | 592 | 683 | 476 | 600 | 811 |
| Change | 17.7% | 15.3% | -30.2% | 26.0% | 35.2% |
| No. of shares (Cr) | 66 | 73 | 74 | 74 | 74 |
| EPS (Rs) | 9.2 | 9.5 | 6.6 | 8.3 | 11.2 |
| Change | 11.0% | 3.4% | -30.2% | 26.0% | 35.2% |
| DPS (Rs) | 1.1 | 0.9 | 0.5 | 1.0 | 1.0 |

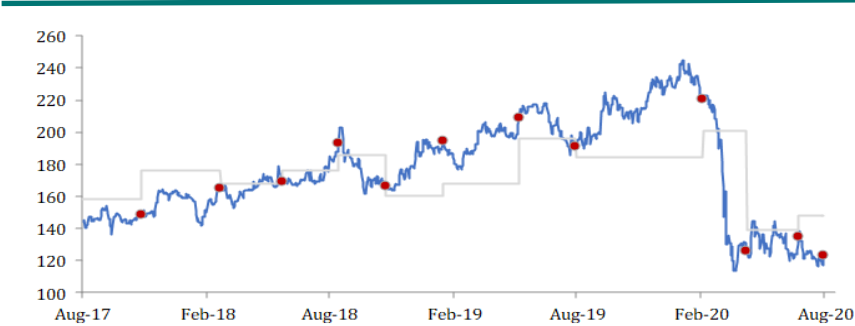
BALANCE SHEET

| Y.E March (Rs cr) | FY18A | FY19A | FY20A | FY21E | FY22E |
|---------------------|--------|--------|--------|--------|--------|
| Cash | 1,862 | 1,993 | 2,030 | 1,539 | 1,142 |
| Loans & Advances | 27,853 | 32,673 | 33,927 | 37,335 | 41,474 |
| 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 | 4,891 | 5,371 |
| Total Assets | 39,937 | 45,259 | 49,734 | 53,439 | 58,026 |
| Deposits | 32,853 | 38,448 | 40,832 | 43,473 | 47,383 |
| Debt Funds | 1,736 | 481 | 2,032 | 2,319 | 2,072 |
| Other Liabilities | 1,186 | 1,489 | 1,573 | 1,824 | 2,008 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Equity Capital | 66 | 73 | 74 | 74 | 74 |
| Reserves & Surplus | 4,097 | 4,767 | 5,222 | 5,750 | 6,489 |
| Shareholder's Funds | 4,163 | 4,841 | 5,296 | 5,824 | 6,563 |
| Total Liabilities | 39,937 | 45,259 | 49,734 | 53,439 | 58,026 |
| BVPS (Rs) | 62.6 | 65.9 | 71.8 | 79.0 | 89.0 |
| Change | 5.4% | 5.2% | 9.4% | 10.0% | 12.7% |
| Adj. BVPS (Rs) | 55.5 | 57.9 | 61.5 | 65.3 | 74.0 |
| Change | 5.5% | 4.3% | 6.3% | 6.1% | 13.5% |

RATIOS

| Y.E March | FY18A | FY19A | FY20A | FY21E | FY22E |
|--------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| Interest yield (%) | 10.2 | 9.9 | 10.0 | 9.5 | 9.5 |
| Cost of funds (%) | 6.0 | 5.9 | 5.9 | 5.5 | 5.7 |
| Spread(%) | 4.2 | 4.0 | 4.0 | 4.0 | 3.8 |
| NIM (%) | 4.3 | 4.2 | 4.0 | 3.9 | 4.0 |
| ROE (%) | 15.3 | 15.2 | 9.4 | 10.8 | 13.1 |
| ROA(%) | 1.6 | 1.6 | 1.0 | 1.2 | 1.5 |
| Business Ratios | | | | | |
| Loan growth (%) | 16.9 | 17.3 | 3.8 | 10.0 | 11.1 |
| Deposit growth (%) | 9.1 | 17.0 | 6.2 | 6.5 | 9.0 |
| C/D ratio(%) | 84.8 | 85.0 | 83.1 | 85.9 | 87.5 |
| Operating Ratios | | | | | |
| Cost to Income (%) | 38.5 | 41.7 | 43.0 | 41.9 | 40.0 |
| CASA (%) | 24.2 | 25.2 | 25.0 | 24.6 | 25.7 |
| Asset Quality | | | | | |
| GNPA (%) | 3.0 | 3.0 | 4.1 | 5.3 | 5.1 |
| NNPA (%) | 1.7 | 1.8 | 2.3 | 2.8 | 2.7 |
| Capital Adequacy | | | | | |
| CAR (%) | 16.2 | 15.6 | 15.4 | 15.2 | 15.1 |
| Valuation | | | | | |
| P/E (x) | 12.8 | 12.4 | 17.7 | 14.1 | 10.4 |
| P/B (x) | 1.9 | 1.8 | 1.6 | 1.5 | 1.3 |
| Adj. P/B (x) | 2.1 | 2.0 | 1.9 | 1.8 | 1.6 |

Recommendation Summary



Source: Bloomberg, Geojit Research.

| Dates | Rating | Target |
|------------|------------|--------|
| 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 |
| 14 Aug 20 | Buy | 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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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