

City Union Bank

Ahead of estimates, despite conservative provisioning

CUBK's earnings were significantly ahead of estimates, despite higher-than-expected provisions, led by better-than-expected operating performance. Like most banks, CUBK saw a surge in collection efficiency, despite a high proportion of SME loans. Further, the bank continued to provide for the impact of COVID-19 prudently. CUBK remains our preferred pick amongst the mid-tier banks, given its healthy capital position, strong PPOP profile, and conservative management. Maintain BUY with a target price of Rs 199.

- **Asset quality and collections:** Aided by nil slippages (SC order) and slightly higher write-offs, GNPA's dipped 9.3% QoQ to Rs 12.2bn (3.4%). Total SMA now stood at ~Rs 4bn (vs. Rs 6.3bn in July). Collection efficiency improved rapidly, reaching ~91% and 4.1% of borrowers had not paid a single instalment since March. These trends are encouraging. Despite this, the mgt expects slippages of 3-3.5% in FY21E and ~5% to be restructured.
- **Non-tax provisions** remained elevated at ~Rs 1.8bn (~2% ann.) as CUBK continued to provide for the potential impact of COVID-19 (~Rs 1.2bn in 2Q, total provisions at ~Rs 3.2bn, ~89bps of loans, highest amongst peers). Despite the sharp fall in NPA provisions (-67.3/-36% YoY/QoQ), and slightly higher write-offs, calc. PCR rose 324/149bps to 48.3%. We continue to factor in elevated LLPs of 1.6% over FY21-23E.
- **Loan growth** slowed slightly to 6.5% YoY. MSME (+11/11.5%, propelled by disbursals under the MSME credit guarantee scheme- ~Rs 17bn) and gold loans (+57.8/31.6%, on a small base, now 12.8% of loans) were major growth drivers. The management guides for high single-digit growth in FY21E. We build in loan growth of 11.2% over FY21-23E.
- **NIMs** rebounded, expanding 21/14bps to 4.12%; led by a 71/35bps reduction in the CoD, driving core spreads and a 328/137bps decline in the CD ratio, as deposit growth remained muted. Further, CUBK reversed interest income amounting to Rs 250mn on its SMA exposures, adjusted for which, the NIM stands at 4.33%. We build in NIMs of 3.8% over FY21-23E.

Financial summary

(Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	4,751	4,115	15.5%	4,370	8.7%	16,752	17,763	19,746	22,240
PPOP	3,847	3,465	11.0%	3,560	8.0%	13,414	14,263	15,666	17,357
PAT	1,577	1,935	-18.5%	1,540	2.4%	4,763	5,348	7,607	9,209
EPS (Rs)	2.1	2.6	-19.0%	2.1	2.2%	6.5	7.3	10.3	12.5
ROAE (%)						9.4	9.6	12.3	13.3
ROAA (%)						1.00	1.04	1.38	1.50
ABVPS (Rs)						61.3	65.7	77.7	89.5
P/ABV (x)						2.49	2.32	1.96	1.70
P/E (x)						23.6	21.0	14.8	12.2

Change in estimates

Rs mn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	357,337	362,670	1.5%	401,155	407,169	1.5%	459,450	466,396	1.5%
NIM (%)	3.7	3.8	5 bps	3.8	3.8	5 bps	3.8	3.9	5 bps
NII	17,265	17,763	2.9%	18,951	19,746	4.2%	21,380	22,240	4.0%
PPOP	13,969	14,263	2.1%	15,072	15,666	3.9%	16,725	17,357	3.8%
PAT	5,268	5,348	1.5%	7,551	7,607	0.7%	8,995	9,209	2.4%
ABVPS (Rs)	65.5	65.7	0.3%	76.6	77.7	1.4%	88.5	89.5	1.1%

Source: Bank, HSIE Research

BUY

CMP (as on 2 Nov 2020)	Rs152
Target Price	Rs 199
NIFTY	11,669

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 196	Rs 199
	FY21E	FY22E
EPS %	1.5%	0.7%

KEY STOCK DATA

Bloomberg code	CUBK IN
No. of Shares (mn)	738
MCap (Rs bn) / (\$ mn)	113/1,513
6m avg traded value (Rs mn)	335
52 Week high / low	Rs 249/110

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.8	5.6	(28.4)
Relative (%)	20.1	(12.3)	(27.4)

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	0.0	0.0
FIs & Local MFs	29.5	32.2
FPIs	21.7	18.7
Public & Others	48.8	49.1

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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