

Balance sheet strengthening in focus...

City Union Bank (CUB) reported a decent number on the operating front with an improvement in margins and controlled costs. Business growth, however, was on the slower side as the management still maintains a cautious approach and would review situation in coming quarters, before stepping on the accelerator. Currently, incremental disbursement has only been towards gold loans, ECLGS. On ~9.03% of advances, the bank did not receive even a single payment during moratorium vs. 12.45% in June 2020. Also, 90.5% of bank exposure received payments demanded in September.

NII growth was healthy at 15.5% YoY, 8.7% QoQ to ₹ 475 crore, mainly driven by margin expansion. NIMs jumped 21 bps YoY, 14 bps QoQ to 4.12%, led by a reduction in cost of funds and optimisation of credit deposit ratio. As a prudent measure, the bank had reversed interest on exposure of ₹ 25 crore classified as SMA. Other income fell 13.2% YoY to ₹ 169 crore, on account of YoY decline in treasury and fee income. Opex was flattish on a yearly basis while there was 7.6% rise QoQ and provisions remained elevated, up 12.7% QoQ, 64% YoY to ₹ 177 crore. As a result, PAT showed marginal 2.4% QoQ growth to ₹ 158 crore but was down 18.5% YoY.

Asset quality improved on a sequential basis as GNPA, NNPA declined 46 bps, 30 bps to 3.44%, 1.81%, respectively. The company benefitted from standstill asset classification norms. As a result, there was no fresh slippages in Q2FY21. The bank has made ₹ 115 crore worth Covid related provisions in Q2FY21. Now, total Covid related provisions are at ₹ 317 crore (~90 bps of advances). The bank expects total restructuring to be around 5-6% while slippages are expected to be in the 3-3.5% range.

Loan book growth was near industry average at 6.3% YoY to ₹ 35436 crore. MSME and commercial real estate reflected healthy growth while retail loan growth was muted. Deposit increased a tad by 2.4% YoY to ₹ 41420 crore helped by 7% growth in CASA. As a result, CASA ratio improved 109 bps sequentially to 25.7%. Geographically, the bank intends to focus on Andhra Pradesh, Telangana, rural Maharashtra and Gujarat region for growth outside Tamil Nadu.

Valuation & Outlook

A continued conservative approach and yield led pressure on margin is expected to keep the operational performance muted with a gradual pick-up in H2FY22E, as the tide turns towards normalcy. Sequentially, asset quality has improved but the quantum of loans that would be coming up for restructuring and slippages number in coming quarter would be key to monitor. We remain positive on fundamentals and upgrade the recommendation from HOLD to **BUY** with a revised target price of ₹ 200 (₹ 130 earlier), implying a multiple of 2.6x FY22E BV.



Particulars

| Particulars | Amount |
|-----------------------|---------------|
| Market Capitalisation | ₹ 13006 crore |
| GNPA (Q2FY21) | ₹ 1220 crore |
| NNPA (Q2FY21) | ₹ 631 crore |
| NIM (Q2FY21)(%) | 4.12 |
| 52 week H/L | 249/110 |
| Networth | ₹ 5296 crore |
| Face value | ₹ 1 |
| DII Holding (%) | 27.5 |
| FII Holding (%) | 18.7 |

Key Highlights

- Focus on balance sheet strengthening to keep growth momentum moderate
- Collection efficiency improving but slippages, restructuring quantum to be watched
- Upgrade from HOLD to BUY with revised target price of ₹ 200 (earlier ₹ 130)

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Key Financial Summary

| ₹ crore | FY18 | FY19 | FY20 | FY21E | FY22E | CAGR (FY19-22E) |
|---------|------|------|------|-------|-------|-----------------|
| NII | 1430 | 1611 | 1675 | 1800 | 1949 | 7% |
| PPP | 1208 | 1240 | 1341 | 1416 | 1523 | 7% |
| PAT | 592 | 720 | 476 | 616 | 741 | 1% |
| BV (₹) | 62.7 | 65.5 | 71.4 | 79.9 | 90.1 | |
| ABV (₹) | 55.4 | 57.3 | 60.8 | 67.6 | 77.6 | |
| P/ABV | 3.1 | 3.0 | 2.9 | 2.6 | 2.2 | |
| P/BV | 2.8 | 2.7 | 2.4 | 2.2 | 1.9 | |
| P/E | 19.5 | 17.7 | 26.9 | 20.8 | 17.3 | |
| RoA | 1.6 | 1.7 | 1.0 | 1.2 | 1.3 | |
| RoE | 15.5 | 16.2 | 9.4 | 11.2 | 11.9 | |

Exhibit 1: Variance Analysis

| | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) | Comments |
|--------------------------|--------|--------|---------|--------|---------|--|
| NII | 475 | 412 | 15.5 | 437 | 8.7 | Healthy growth owing to expansion in NIMs |
| NIM (%) | 4.12 | 3.9 | 21 bps | 4.0 | 14 bps | Margins improve mainly due to steeper decline in cost of funds though yield side pressure persists |
| Other Income | 169 | 195 | -13.2 | 161 | 5.4 | YoY decline due to lower treasury and fee income |
| Net Total Income | 644 | 607 | 6.3 | 598 | 7.8 | |
| Staff cost | 120 | 113 | 6.0 | 116 | 3.0 | |
| Other Operating Expenses | 140 | 147 | -4.8 | 125 | 11.9 | Yearly decline due to less business activity and conservative growth approach |
| PPP | 385 | 346 | 11.0 | 356 | 8.0 | |
| Provision | 177 | 108 | 64.0 | 157 | 12.7 | Elevated due to prudent Covid-19 related provisioning |
| PBT | 208 | 239 | -12.9 | 199 | 4.3 | |
| Tax Outgo | 50 | 45 | 11.1 | 45 | 11.1 | |
| PAT | 158 | 194 | -18.5 | 154 | 2.4 | |
| Key Metrics | | | | | | |
| GNPA | 1,221 | 1,135 | 7.5 | 1,346 | -9.3 | Asset quality improved with no fresh slippages due to standsitll asset classification norms |
| NNPA | 631 | 624 | 1.2 | 716 | -11.9 | |
| Advances | 34,825 | 32,760 | 6.3 | 34,536 | 0.8 | Moderate growth due to conservative approach |
| Deposits | 41,421 | 40,451 | 2.4 | 41,026 | 1.0 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

| ₹ Crore) | FY21E | | | FY22E | | |
|----------------------|-------|-------|----------|-------|-------|----------|
| | Old | New | % Change | Old | New | % Change |
| Net Interest Income | 1,701 | 1,800 | 6 | 1,900 | 1,949 | 3 |
| Pre Provision Profit | 1,298 | 1,416 | 9 | 1,454 | 1,523 | 5 |
| NIM (%) | 3.5 | 3.7 | 21 bps | 3.6 | 3.7 | 10 bps |
| PAT | 556 | 616 | 11 | 718 | 741 | 3 |
| ABV (₹) | 66.3 | 67.6 | 1.9 | 75.2 | 77.6 | 3.3 |

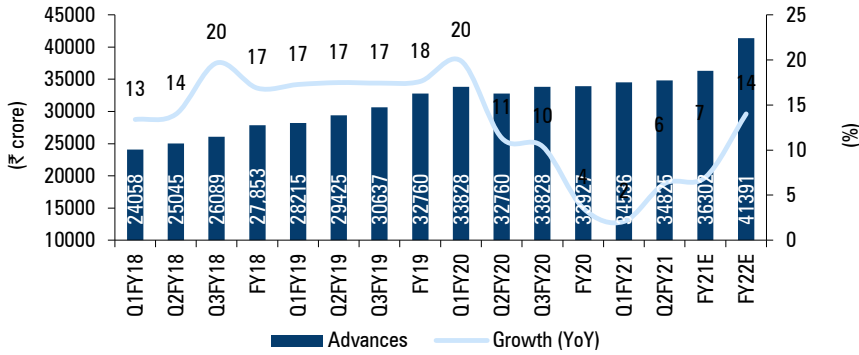
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

| | FY19 | FY20 | Current | | Earlier | |
|--------------------------|------|-------|---------|-------|---------|-------|
| | | | FY21E | FY22E | FY21E | FY22E |
| Credit growth (%) | 17.3 | 3.8 | 7.0 | 14.0 | 7.0 | 14.6 |
| Deposit Growth (%) | 17.0 | 6.2 | 8.2 | 11.8 | 9.0 | 12.5 |
| CASA ratio (%) | 25.2 | 25.0 | 25.8 | 26.4 | 25.7 | 26.0 |
| NIM Calculated (%) | 4.0 | 3.8 | 3.7 | 3.7 | 3.5 | 3.6 |
| Cost to income ratio (%) | 41.5 | 43.1 | 42.7 | 43.3 | 44.8 | 44.5 |
| GNPA (₹ crore) | 977 | 1,413 | 1,842 | 2,049 | 1,842 | 2,112 |
| NNPA (₹ crore) | 596 | 783 | 908 | 919 | 908 | 947 |
| Slippage ratio (%) | 1.9 | 3.3 | 2.5 | 2.0 | 2.5 | 2.0 |
| Credit cost (%) | 0.2 | 0.4 | 1.6 | 1.3 | 1.6 | 1.3 |

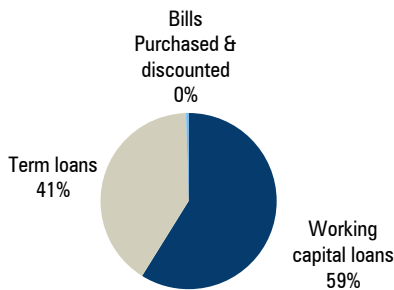
Source: Company, ICICI Direct Research

Exhibit 4: Cautious approach to keep credit growth moderate



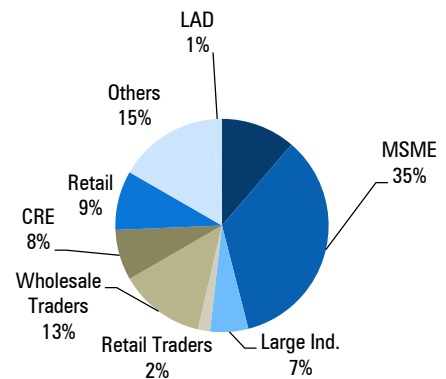
Source: Company, ICICI Direct Research

Exhibit 5: Loan break-up – Product wise



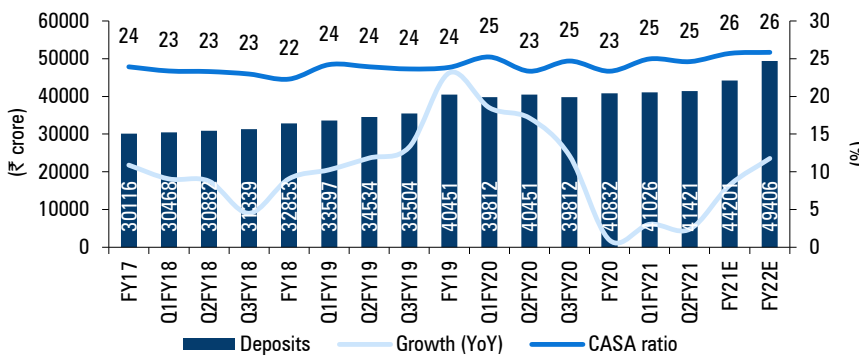
Source: Company, ICICI Direct Research

Exhibit 6: Loan break-up – Sector wise



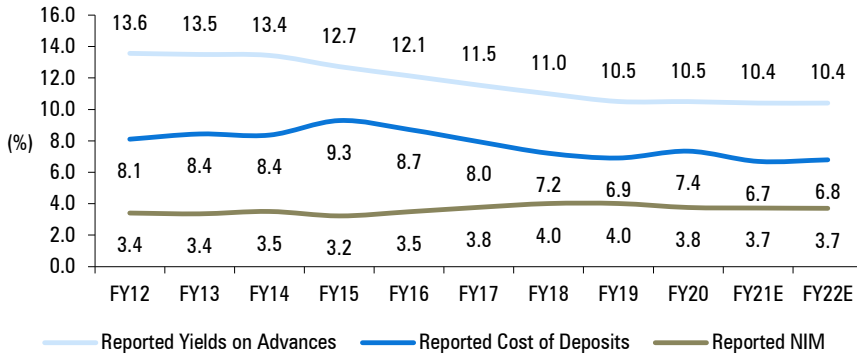
Source: Company, ICICI Direct Research

Exhibit 7: CASA to show steady improvement



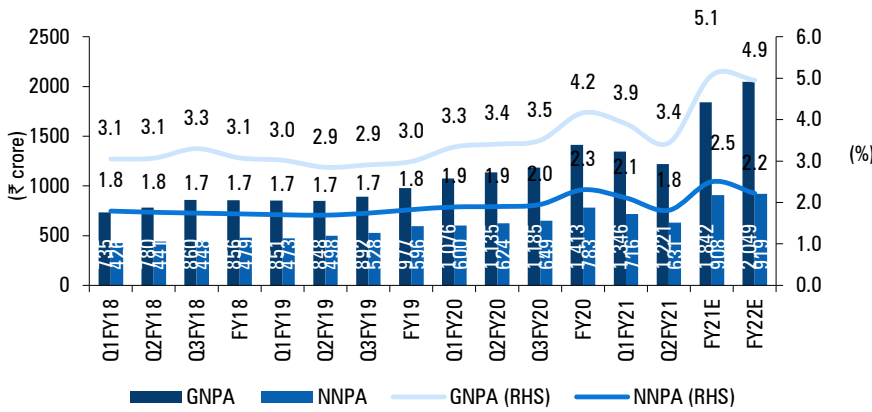
Source: Company, ICICI Direct Research

Exhibit 8: Range-bound margins expected



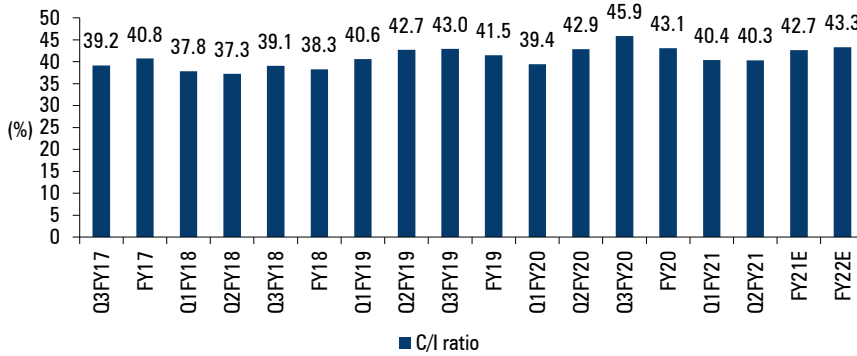
Source: Company, ICICI Direct Research

Exhibit 9: Cautious stance on asset quality in near term



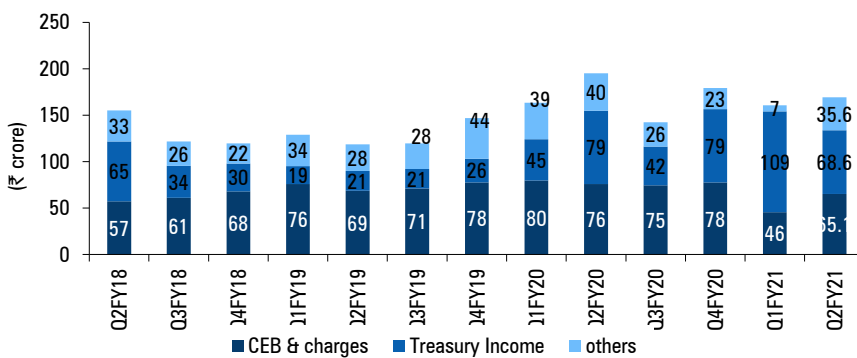
Source: Company, ICICI Direct Research

Exhibit 10: C-I ratio to inch up slightly



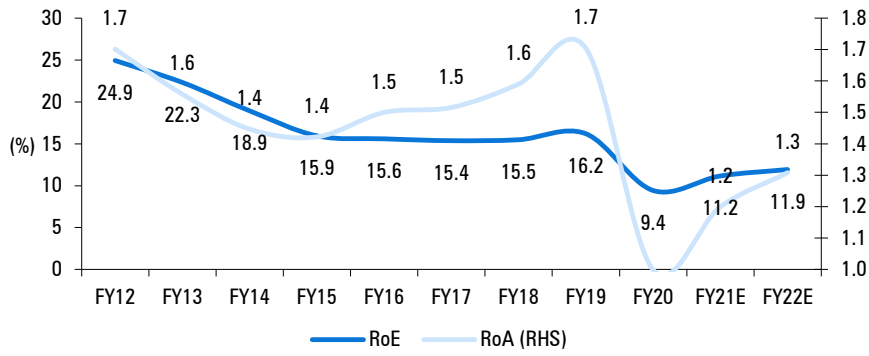
Source: Company, ICICI Direct Research

Exhibit 11: Other income break-up



Source: Company, ICICI Direct Research

Exhibit 12: Return ratios to remain moderate, going forward



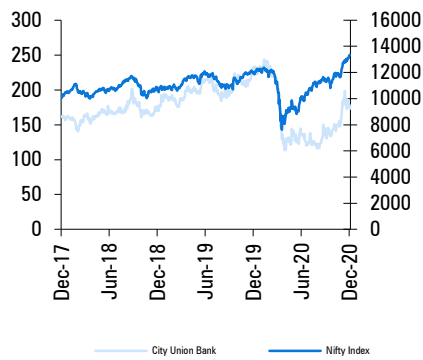
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

| | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|----------|--------|--------|--------|--------|--------|
| Promoter | - | - | - | - | - |
| FII | 22.6 | 22.6 | 20.8 | 21.7 | 18.7 |
| DII | 30.6 | 30.6 | 32.1 | 30.1 | 27.5 |
| Others | 46.8 | 46.8 | 47.1 | 48.3 | 53.8 |

Source: Company, ICICI Direct Research

Exhibit 14: Price Chart



Source: Company, ICICI Direct Research

Financial summary

| Exhibit 15: Profit and loss statement | | | | |
|---------------------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Interest Earned | 3,767.2 | 4,168.6 | 4,305.6 | 4,710.6 |
| Interest Expended | 2155.7 | 2493.4 | 2505.1 | 2761.2 |
| Net Interest Income | 1,611.5 | 1,675.2 | 1,800.4 | 1,949.5 |
| growth (%) | 12.7 | 4.0 | 7.5 | 8.3 |
| Non Interest Income | 514.4 | 679.9 | 674.4 | 743.7 |
| Net Income | 2125.9 | 2355.1 | 2474.8 | 2693.2 |
| Staff cost | 364.4 | 420.7 | 456.7 | 497.3 |
| Other Operating expense | 521.4 | 593.1 | 602.3 | 673.1 |
| Operating profit | 1240.0 | 1341.4 | 1415.8 | 1522.9 |
| Provisions | 277.7 | 755.1 | 637.6 | 588.3 |
| Taxes | 242.0 | 110.0 | 162.5 | 193.8 |
| Net Profit | 720.3 | 476.3 | 615.7 | 740.8 |
| growth (%) | 21.6 | -33.9 | 29.3 | 20.3 |
| EPS (₹) | 9.8 | 6.5 | 8.4 | 10.0 |

Source: Company, ICICI Direct Research

| Exhibit 16: Key Ratios | | | | |
|----------------------------|------|------|-------|-------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Valuation | | | | |
| No. of Equity Shares | 73.5 | 73.7 | 73.7 | 73.7 |
| EPS (₹) | 9.8 | 6.5 | 8.4 | 10.0 |
| BV (₹) | 65.5 | 71.4 | 79.9 | 90.1 |
| ABV (₹) | 57.3 | 60.8 | 67.6 | 77.6 |
| P/E | 17.7 | 26.9 | 20.8 | 17.3 |
| P/BV | 2.7 | 2.4 | 2.2 | 1.9 |
| P/ABV | 3.0 | 2.9 | 2.6 | 2.2 |
| Yields & Margins (%) | | | | |
| Net Interest Margins | 4.0 | 3.8 | 3.7 | 3.7 |
| Yield on assets | 9.2 | 9.1 | 8.8 | 8.9 |
| Avg. cost on funds | 5.9 | 6.1 | 5.6 | 5.6 |
| Yield on average advances | 10.5 | 10.5 | 10.4 | 10.4 |
| Avg. Cost of Deposits | 5.9 | 6.2 | 5.7 | 5.7 |
| Quality and Efficiency (%) | | | | |
| Cost to income ratio | 41.5 | 43.1 | 42.7 | 43.3 |
| Credit/Deposit ratio | 85.0 | 83.1 | 82.1 | 83.8 |
| GNPA | 3.0 | 4.2 | 5.1 | 4.9 |
| NNPA | 1.8 | 2.3 | 2.5 | 2.2 |
| ROE | 16.2 | 9.4 | 11.2 | 11.9 |
| ROA | 1.7 | 1.0 | 1.2 | 1.3 |

Source: Company, ICICI Direct Research

| Exhibit 17: Balance sheet | | | | |
|--------------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Sources of Funds | | | | |
| Capital | 73.5 | 73.7 | 73.7 | 73.7 |
| Reserves and Surplus | 4767.3 | 5222.3 | 5849.2 | 6601.1 |
| Networth | 4840.8 | 5296.1 | 5922.9 | 6674.8 |
| Deposits | 38447.9 | 40832.5 | 44201.1 | 49406.0 |
| Borrowings | 480.9 | 2032.4 | 2210.9 | 2406.3 |
| Other Liabilities & Provisions | 1489.3 | 1572.6 | 1663.5 | 1761.5 |
| Total | 45,259 | 49,734 | 53,998 | 60,249 |
| Applications of Funds | | | | |
| Fixed Assets | 250.0 | 245.2 | 259.4 | 288.2 |
| Investments | 7712.0 | 9116.8 | 9589.1 | 10369.4 |
| Advances | 32673.3 | 33927.4 | 36302.4 | 41390.5 |
| Other Assets | 2177.0 | 1722.5 | 3137.4 | 3915.4 |
| Cash with RBI & call money | 2446.6 | 4721.6 | 4710.2 | 4285.1 |
| Total | 45,259 | 49,734 | 53,998 | 60,249 |

Source: Company, ICICI Direct Research

| Exhibit 18: Key ratios | | | | |
|------------------------|-------|--------|-------|-------|
| (Year-end March) | FY19E | FY20 | FY21E | FY22E |
| Total assets | | | | |
| Total assets | 13.3 | 9.9 | 8.6 | 11.6 |
| Advances | 17.3 | 3.8 | 7.0 | 14.0 |
| Deposit | 17.0 | 6.2 | 8.2 | 11.8 |
| Total Income | 8.8 | 13.0 | 2.9 | 9.5 |
| Net interest income | 12.7 | 4.0 | 7.5 | 8.3 |
| Operating expenses | 17.4 | 14.4 | 4.5 | 10.5 |
| Operating profit | 2.7 | 8.2 | 5.5 | 7.6 |
| Net profit | 21.6 | -33.9 | 29.3 | 20.3 |
| Net worth | 15.5 | 9.5 | 11.9 | 12.8 |
| EPS | 10.0 | (34.1) | 29.3 | 20.3 |

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

| Sector/ Company | CMP | | M Cap (₹ Bn) | EPS (₹) | | | P/E (x) | | | P/ABV (x) | | | RoA (%) | | | RoE (%) | | | |
|-----------------------|-------|-------|-----------------|---------|-------|-------|---------|------|-------|-----------|------|-------|---------|------|-------|---------|-------|-------|-------|
| | (₹) | TP(₹) | | Rating | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E |
| BoB (BANBAR) | 65 | 70 | Hold | 274 | 1.2 | 4.3 | 7.1 | 55.0 | 15.1 | 9.1 | 0.6 | 0.5 | 0.5 | 0.1 | 0.2 | 0.3 | 0.9 | 2.7 | 4.4 |
| SBI (STABAN) | 270 | 290 | Hold | 2357 | 16.3 | 19.1 | 28.9 | 16.6 | 14 | 9.3 | 1.3 | 1.2 | 1.1 | 0.4 | 0.4 | 0.6 | 6.4 | 7.1 | 9.9 |
| Indian Bank (INDIBA) | 90 | 70 | Hold | 83 | 22.6 | 33.7 | 33.2 | 4.0 | 2.7 | 2.7 | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.4 | 5.5 | 7.8 | 7.3 |
| Axis Bank (AXIBAN) | 617 | 710 | Buy | 1888 | 5.8 | 10.6 | 25.6 | 107 | 58.1 | 24.1 | 2.3 | 2.3 | 2.2 | 0.2 | 0.3 | 0.7 | 2.1 | 3.5 | 8.0 |
| City Union (CITUNI) | 174 | 200 | Buy | 132 | 8.4 | 10.0 | 10.0 | 20.7 | 17.4 | 17.3 | 2.9 | 2.6 | 2.2 | 1.0 | 1.2 | 1.3 | 9.4 | 11.2 | 11.9 |
| DCB Bank (DCB) | 115 | 135 | Buy | 36 | 10.9 | 10.1 | 14.0 | 10.6 | 11.4 | 8.2 | 1.2 | 1.2 | 1.0 | 0.9 | 0.8 | 1.1 | 11.3 | 9.6 | 11.9 |
| Federal Bank (FEDBAN) | 67 | 80 | Buy | 133 | 7.7 | 6.8 | 9.5 | 8.6 | 9.8 | 7.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.7 | 0.9 | 11.1 | 9.1 | 11.6 |
| HDFC Bank (HDFBAN) | 1,392 | 1,450 | Buy | 7523 | 47.9 | 52.3 | 63.3 | 29.1 | 26.6 | 22.0 | 4.6 | 4.1 | 3.7 | 1.9 | 1.8 | 1.9 | 16.4 | 15.7 | 17.0 |
| IndusInd Bank (INDBA) | 925 | 1,050 | Hold | 698 | 63.7 | 32.5 | 50.9 | 14.5 | 28.5 | 18.2 | 2.0 | 1.9 | 1.8 | 1.5 | 0.8 | 1.1 | 14.4 | 6.6 | 9.3 |
| J&K (JAMKAS) | 25 | 25 | Hold | 17 | -16.0 | 7.5 | 10.4 | -1.6 | 3.3 | 2.4 | 0.4 | 0.4 | 0.3 | -1.1 | 0.5 | 0.6 | -17.5 | 8.1 | 10.6 |
| Kotak Bank (KOTMAH) | 1,837 | 1,950 | Hold | 3605 | 20.4 | 21.1 | 26.4 | 90.0 | 87.1 | 69.5 | 11.3 | 9.0 | 8.1 | 1.8 | 1.7 | 1.8 | 12.9 | 11.2 | 11.8 |
| Bandhan (BANBAN) | 401 | 400 | Buy | 661 | 18.1 | 20.3 | 29.9 | 0.9 | 0.8 | 0.5 | 0.2 | 0.1 | 0.1 | 3.9 | 3.3 | 4.1 | 22.1 | 20.1 | 24.6 |
| IDFC First (IDFBAN) | 37 | 45 | Buy | 210 | -6.0 | 0.8 | 1.5 | -6.2 | 47.3 | 24.5 | 1.2 | 1.2 | 1.2 | -1.9 | 0.3 | 0.5 | -18.7 | 2.7 | 4.7 |

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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