

## Retail Equity Research (South India Focus)

# City Union Bank Ltd

## Banking

BSE CODE : 532210

NSE CODE: CUB

BLOOMBERG CODE: CUBK:IN

SENSEX : 51,849

**BUY**

12 Month Investment Period

Rating as per MidCap

**CMP Rs. 168 TARGET Rs. 208 RETURN 24%** ↑

(Closing: 02-06-21)

**KEY CHANGES:**
**TARGET** ↔

**RATING** ↔

**EARNINGS** ↑

## ECLGS and Gold loan to drive disbursement

City Union Bank Ltd (CUB), the oldest private sector bank in India, is a mid-sized commercial bank headquartered in Tamil Nadu, having a network of 702 branches and 1,724 ATMs spread across the country and a loan book size of Rs.37,021cr

- **Total Business grew by 8% YoY with advances growing at 7% supported by strong growth in ECLGS (Emergency Credit Line Guarantee Scheme) and Gold Loan.**
- **Net Interest Income grew by 2% YoY while declined 12.4% QoQ with NIM declined by 44bps sequentially due to interest reversal.**
- **We expect Advances to grow at a CAGR of 10.5% and Deposits to grow at 8.5% over FY20-23.**
- **GNPA/NNPA stands at 5.11%/2.97% against 2.94%/1.47% during Q3FY21 due to NPA recognition. Slippage for FY21 stands at 3.01%. We expect elevated slippage levels, however, expect it to be in control due to restructuring of MSME books.**
- **We recommend Buy rating on the stock based on 2.4x Adj BVPS of FY23E with a target price of Rs 208 .**

### Continuous improvement seen in CASA

In Q3FY21, banks total business grew by 8% YoY with deposits growing at 9% YoY and 3% sequentially while advances grew 7% YoY and 1.4% sequentially. Growth in advances was led by higher ECLGS and Gold loan disbursement. Through ECLGS 1, 2 and 3 scheme, bank has so far disbursed Rs.2,096Cr which is about 5.65% of total advances. Total Gold loan outstanding as on Q4FY21 stands at Rs.6,540cr (Rs.5533cr as on Q3FY21). We expect advances to growth at a CAGR of 10.5% over FY20-23 and deposit to grow at CAGR of 8.5%. CASA ratio improved to 29.1% (27.5% during Q3FY21) with savings deposit growing at 6.2% QoQ and demand deposit at 17% QoQ while term deposit grew by 0.5%.

### Interest reversal offset NII growth

Net Interest Income (NII) for the quarter grew by 2% YoY while it declined 12.4% sequentially aided by 6% YoY decline in interest income and 12% reduction in interest expenses. Decline in interest income was due to interest reversal on NPA accounts amounting to Rs.125cr during the quarter. However, considering the provision of Rs.55cr made in this regard during Q2 and Q3, net reversal for the quarter stands at Rs.70cr. As a result reported NIM showed a sequential dip of 44bps to 3.72% with yield of funds declining 54bps sequentially. Due to this, cost to income ratio also spiked to 50.4% against 36.2% last quarter. During the quarter, bank made additional NPA provision of Rs.177cr over and above Rs.309Cr written back from Covid provision. Net Profit of the bank was at Rs.111cr against net loss of Rs.95Cr during Q4FY20 and Rs.170cr as on Q3FY21. ROA for the quarter stands at 0.84% against 1.29% in the previous quarter and ROE at 7.85% against 12.03%. We expect ROA and ROE to reach pre-covid levels from second half of FY22.

### Lower NPA due to standstill

GNPA/NNPA for the quarter stands elevated at 5.11%/2.97% against 2.94%/1.47% during Q3FY21 because of NPA recognition during the quarter. However, slippages has reduced to Rs.1,110cr against Q3FY21 pro forma slippage of Rs.1,134cr. Slippage ratio for FY21 stands at 3.01% which is in line with the management expectation. In view of second wave, slippages are expected to remain elevated in the coming quarter. Bank has so far restructured advances amounting to Rs.1,849cr which is about 5% of total advances. In Q4FY21, bank has restructured 1,086 borrower accounts valuing Rs.1,116cr.

### Outlook and valuation

We expect the growth in advances to be driven by ECLGS and Gold Loan. Bank is expected to reach pre-covid levels of ROA and ROE by H1FY22. Even though we expect higher slippage due to the impact of second wave, restructuring of MSME loan book will keep NPA under control. We therefore remain positive and value the stock at 2.4x FY23E Adj BVPS and recommend Buy rating with a roll forward upward target price of Rs.208.

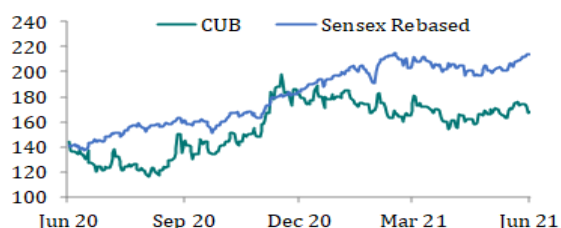
### Company Data

Market Cap (Rs cr)	12,408.5
Outstanding Shares (cr)	73.9
Free Float (%)	100.0
Dividend Yield (%)	0.2
52 week high (Rs)	199.8
52 week low (Rs)	115.6
6m average volume (cr)	0.28
Beta	1.04
Face value (Rs)	1

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	0	0	0
FII's	19	19	18
MFs/Institutions	27	37	39
Public	54	44	43
Total	100	100	100
Promoter pledge	-	-	-

Price Performance	3 month	6 month	1 year
Absolute Return	-6.8%	-6.4%	20.4%
Absolute Sensex	2.0%	15.0%	53.3%
Relative Return*	-8.8%	-21.4%	-32.9%

\*over or under performance to benchmark index



Standalone (Rs cr)	FY21A	FY22E	FY23E
NII	1,830	1,997	2,193
Growth	9.2%	9.1%	9.8%
NIM(%)	4.09	4.14	4.19
Provisions	791	652	529
Adj. PAT	593	750	938
Growth	24.4%	26.6%	25.0%
Adj. EPS	8.2	10.4	13.0
Growth	24.4%	26.6%	25.0%
BVPS	79.1	88.3	100.0
Adj BVPS	64.9	74.3	86.7
P/E	20.3	16.1	12.9
P/B	2.1	1.9	1.7
Adj. P/B	2.6	2.2	1.9
ROE (%)	10.6	12.1	13.5

## Quarterly Financials (Standalone)

(Rs cr)	Q4FY21	Q3FY21	QoQ Growth (%)	Q4FY20	YoY Growth (%)	FY21	FY20	YoY Growth (%)
Interest Income	976	1,048	-6.8	1,042	-6.3	4,135	4,169	-0.8
Interest Expense	548	559	-2.0	622	-12.0	2,305	2,493	-7.6
Net Interest Income (NII)	429	489	-12.4	420	2.1	1,830	1,675	9.2
Fee and Other Income	145	230	-36.9	179	-19.1	705	680	3.7
Total Income	574	719	-20.2	599	-4.2	2,534	2,355	7.6
Expenditure	289	260	11.0	264	9.6	1,051	1,014	3.6
Pre-Provision Profit	285	458	-37.9	335	-15.0	1,484	1,341	10.6
Provision	239	219	9.2	450	-47.0	791	755	4.8
PBT	46	240	-80.8	-115	-	693	586	18.1
Tax	-65	70	-	-20	-	100	110	-9.1
Reported PAT	111	170	-34.6	-95	-	593	476	24.4
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	111	170	-34.6	-95	-	593	476	24.4
Diluted EPS (Rs)	1.49	2.28	-34.6	-1.30	-	7.97	6.41	24.3

## Change in Estimates

Year / Rs cr	Old Estimates		New Estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY21E	FY22E
Net Interest Income (NII)	2,017	2,223	1,997	2,193	-1.0%	-1.3%
Net Interest Margin (%)	4.09	4.12	4.14	4.19	5bps	7bps
Pre-Provision Profit	1,668	1,813	1,659	1,788	-0.5%	-1.4%
Adj. PAU	784	844	750	938	-4.3%	11.1%
Diluted EPS (Rs)	10.9	11.7	10.4	13.0	-4.6%	11.1%

**PROFIT & LOSS**

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	3,767	4,169	4,135	4,494	4,967
Interest Expense	2,156	2,493	2,305	2,497	2,774
<b>Net Int. Income</b>	<b>1,611</b>	<b>1,675</b>	<b>1,830</b>	<b>1,997</b>	<b>2,193</b>
<i>Change</i>	<i>12.7%</i>	<i>4.0%</i>	<i>9.2%</i>	<i>9.1%</i>	<i>9.8%</i>
Non Int. Income	514	680	705	773	814
Operating Income	2,126	2,355	2,534	2,770	3,007
<i>Change</i>	<i>8.3%</i>	<i>10.8%</i>	<i>7.6%</i>	<i>9.3%</i>	<i>8.6%</i>
Operating Exp.	886	1,014	1,051	1,110	0
<b>Pre Prov. Profit</b>	<b>1,240</b>	<b>1,341</b>	<b>1,484</b>	<b>1,659</b>	<b>1,788</b>
Prov. & Conting.	315	755	791	652	529
<b>PBT</b>	<b>925</b>	<b>586</b>	<b>693</b>	<b>1,007</b>	<b>1,259</b>
<i>Change</i>	<i>17.1%</i>	<i>-36.6%</i>	<i>18.1%</i>	<i>45.4%</i>	<i>25.0%</i>
Tax	242	110	100	257	321
Tax Rate (%)	26%	19%	14%	26%	26%
Reported PAT	683	476	593	750	938
Adjustment	0	0	0	0	0
<b>Adj. PAT</b>	<b>683</b>	<b>476</b>	<b>593</b>	<b>750</b>	<b>938</b>
<i>Change</i>	<i>15.3%</i>	<i>-30.2%</i>	<i>24.4%</i>	<i>26.6%</i>	<i>25.0%</i>
No. of shares (Cr)	73	74	74	74	74
EPS (Rs)	9.5	6.6	8.2	10.4	13.0
<i>Change</i>	<i>3.4%</i>	<i>-30.2%</i>	<i>24.4%</i>	<i>26.6%</i>	<i>25.0%</i>
DPS (Rs)	0.9	0.5	0.3	1.0	1.0

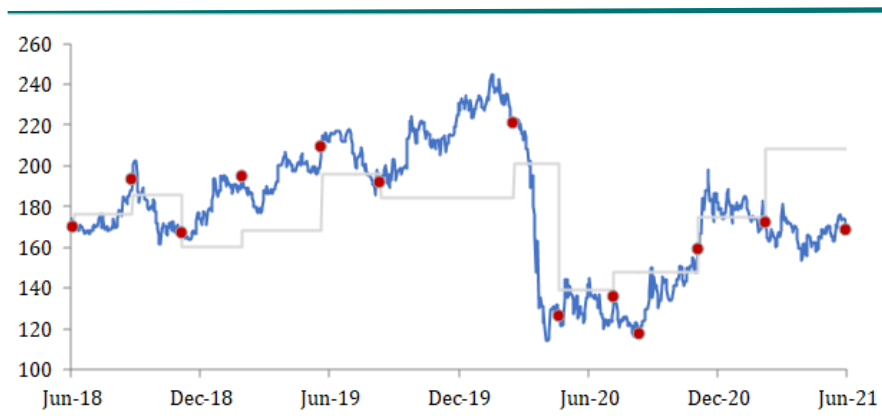
**BALANCE SHEET**

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	1,993	2,030	2,793	2,616	4,048
Loans & Advances	32,673	33,927	36,158	40,578	44,123
Investments	7,712	9,117	9,436	9,813	10,206
Net Fixed Assets	250	245	233	257	235
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	2,630	4,414	4,693	5,217	5,677
<b>Total Assets</b>	<b>45,259</b>	<b>49,734</b>	<b>53,312</b>	<b>58,481</b>	<b>64,289</b>
Deposits	38,448	40,832	44,537	47,822	52,386
Debt Funds	481	2,032	1,346	2,190	2,377
Other Liabilities	1,489	1,573	1,586	1,949	2,139
Provisions	0	0	0	0	0
Equity Capital	73	74	74	74	74
Reserves & Sur-	4,767	5,222	5,769	6,447	7,312
Shareholder's	4,841	5,296	5,842	6,521	7,386
<b>Total Liabilities</b>	<b>45,259</b>	<b>49,734</b>	<b>53,312</b>	<b>58,481</b>	<b>64,289</b>
<b>BVPS (Rs)</b>	<b>65.9</b>	<b>71.8</b>	<b>79.1</b>	<b>88.3</b>	<b>100.0</b>
<i>Change</i>	<i>5.2%</i>	<i>9.4%</i>	<i>10.3%</i>	<i>11.6%</i>	<i>13.3%</i>
Adj. BVPS (Rs)	57.9	61.5	64.9	74.3	86.7
<i>Change</i>	<i>4.3%</i>	<i>6.3%</i>	<i>5.5%</i>	<i>14.5%</i>	<i>16.6%</i>

**RATIOS**

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
Yield on Advances (%)	9.9	10.0	9.2	9.3	9.5
Cost of Deposits (%)	5.9	6.1	5.2	5.2	5.3
Spread(%)	4.0	3.9	4.1	4.1	4.2
NIM (%)	4.2	4.0	4.1	4.1	4.2
ROE (%)	15.2	9.4	10.6	12.1	13.5
ROA(%)	1.6	1.0	1.2	1.3	1.5
<b>Business Growth</b>					
Loans & Advances (%)	17.3	3.8	6.6	12.2	8.7
Deposits (%)	17.0	6.2	9.1	7.4	9.5
<b>Operating Ratios</b>					
Cost to Income (%)	41.7	43.0	41.5	40.1	0.0
CASA (%)	25.2	25.0	29.1	29.4	30.4
<b>Asset Quality</b>					
GNPA (%)	3.0	4.1	5.1	4.9	4.2
NNPA (%)	1.8	2.3	2.9	2.6	2.2
<b>Capital Adequacy</b>					
CAR (%)	15.6	15.8	16.0	16.4	16.2
<b>Valuation</b>					
P/E (x)	17.7	25.3	20.3	16.1	12.9
P/B (x)	2.5	2.3	2.1	1.9	1.7
Adj. P/B (x)	2.9	2.7	2.6	2.2	1.9

## Recommendation Summary (last 3 years)



Dates	Rating	Target
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
04 Nov 20	Accumulate	175
08-Feb-21	Buy	208
02-Jun-21	Buy	208

Source: Bloomberg, Geojit Research.

### 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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