

Decent Performance, Loan growth guidance revised upwards

CMP: INR 163

Rating: Accumulate

Target Price: INR 182

Stock Info

BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	74
Mkt Cap (INR Cr)	12,040
52w H/L (INR)	184 / 109
Avg Yearly Vol (in 000')	2,289

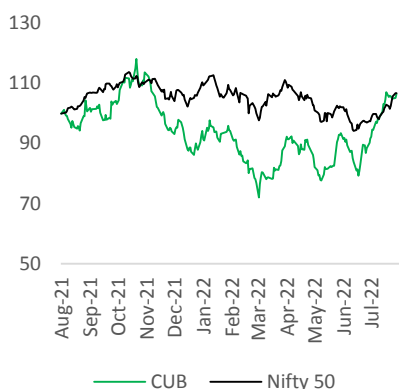
Shareholding Pattern %

(As on June, 2022)

Promoters	Nil
FII	18.2
DII	41.6
Public & Others	40.2

Stock Performance (%)	1m	3m	12m
CUB	12.4	29.4	6.3
Nifty 50	8.4	6.8	7.9

CUB Vs Nifty



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City Union Bank (CUB) posted decent performance during Q1FY23 with profit growth of 30% YoY/8% QoQ to INR 225 cr, was higher than our estimate of INR 201 cr, driven by better operating performance. NII growth was strong supported by healthy credit growth. Bank has reported credit growth of 12% YoY, led by strong growth in gold loan, Agri and Commercial real estate. Management has revised its loan growth guidance upwards from low to mid double digit to 15-18% as the environment now seems conducive. Asset quality of the bank improved marginally with GNPA/NNPA ratio decreased by 5bps/6bps QoQ at 4.7%/2.9% respectively. Gross slippages of the bank increased by 22% QoQ at INR 270 cr (Slippage ratio at 2.6%). Slippage ratio in FY23 is expected to be in the range of 2-2.5%, same as guided earlier.

PPOP growth was supported by healthy other income growth

NII for the quarter grew by 17% YoY/5% QoQ to INR 525 cr, led by credit growth of 12.5% YoY/-0.5% QoQ. NIM of the bank declined marginally by 6bps QoQ at 4%. Management expects NIM to be in the range of 3.85-4%. Other income was higher by 11%YoY/7% QoQ due to higher recoveries from written-off accounts and profit on treasury income side. There was recovery from written off a/cs to the tune of INR 112 cr vs. INR 22.5 cr YoY and INR 74 cr QoQ. Bank has reported treasury profit of INR 21 cr as compared to profit of INR 50 cr in Q4FY22. Operating expenses increased by 14% YoY/12% QoQ due to 17% QoQ increase in employee cost. Operating profit for the quarter increased by 17% YoY/2% QoQ to INR 447 cr, was higher than our estimate of INR 373 cr.

Loan growth guidance revised upwards to 15-18%

Bank's total advances grew by 12.5% YoY/-0.5% QoQ to INR 40,934 cr. Agri portfolio of the bank grew by 49% YoY/2% QoQ, MSME was up by 26% YoY/9% QoQ and Gold portfolio was up by 37% YoY/5% QoQ. Deposit growth improved to 9.3% YoY/2.3% QoQ with CASA ratio at 31.5% vs. 32.6% QoQ.

Slippages increased sequentially

Bank has reported slippages of INR 270 cr (+22% QoQ) or 2.6% of advances (vs. 2.1% in Q4FY22). Recoveries & upgrades was healthy at INR 160 cr for Q1FY22 (INR 197 cr in Q4FY22), implying net NPA addition of INR 110 cr for the quarter. Write-offs for the quarter was at INR 140 cr as compared to INR 76 cr in Q4FY22. Restructured book declined by 7% QoQ at INR 2,033 cr (~5% of advances). SMA 2 of the bank increased from 1.4% to 2% QoQ but there is nothing much to read into this rise in SMA2, as per management. The SMA1 book has declined from 2.79% to 2.41% QoQ.

Valuation & View: We have increased our FY23/24E earnings estimates by 3%/15% respectively to factor in increase in credit growth estimate in line with management guidance. Overall, bank has reported decent quarter with healthy operating performance, improvement in asset quality and moderating credit cost. Management expects to achieve 1.5% RoA in H2FY23E and we believe bank is well on track. Given the bank's higher capital ratio, strong underwriting skills, consistent return ratios, and adequate liquidity, we remain positive on CUB. We build in RoA/RoE of 1.8%/16% for FY24E. We maintain our Accumulate rating on the stock with a revised target price of INR 182 (earlier INR 147), valuing the bank at P/adj. BV of 1.7x FY24E ABV.

(Rs Cr)	FY21A	FY22A	FY23E	FY24E
NII	1,830	1,916	2,393	2,893
PPOP	1,484	1,595	1,917	2,380
PAT	593	760	1,038	1,326
NIM (%)	3.7	3.5	3.8	4.1
RoA (%)	1.2	1.3	1.6	1.8
RoE (%)	10.6	12.2	14.6	16.0
P / ABV (x)	2.5	2.2	1.8	1.5

Quarterly Result Snapshot

Particulars	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
Interest Earned	1099	997	10.2%	1050	4.7%
Interest Expended	575	550	4.5%	549	4.6%
NII	525	448	17.3%	501	4.8%
NIM (%)	3.95	3.86	9bps	4.01	-6bps
Non-interest income	218	196	11.2%	203	7.2%
Operating Expenses	295	260	13.5%	264	12.0%
Employee cost	133	129.3	2.7%	114	16.8%
Cost-Income ratio (%)	39.8	40.5	-66bps	37.5	230bps
Operating Profit	447	383	16.7%	440	1.7%
Provisions	152	170	-10.6%	171	-11.1%
PBT	295	213	38.6%	269	9.7%
Tax provisions	70	40	75.0%	60	16.7%
Effective tax rate	24%	19%	-	22%	NA
Net profit	225	173	30.1%	209	7.7%
EPS	3.0	2.3	31.6%	2.8	7.4%

Asset Quality (%)

Particulars	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
GNPA	4.7	5.6	-94bps	4.7	-5bps
NNPA	2.9	3.5	-60bps	3.0	-6bps
PCR	64.0	63.0	100bps	64.0	0bps

Business Performance

Particulars	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
Advances	40934	36396	12.5%	41156	-0.5%
Deposits	48772	44606	9.3%	47690	2.3%
CASA	15387	12299	25.1%	15529	-0.9%
CASA %	31.5	27.6	398bps	32.6	-101bps
C-D ratio %	83.9	81.6	234bps	86.3	-237bps
NIM	4.0	3.9	9bps	4.0	-6bps
Capital Adequacy %	20.5	19.6	90bps	20.9	-37bps

Q1FY23 Conference Call Highlights:

- Management has revised its credit growth guidance upwards from low to double mid digit guided earlier to 15-18%.
- Around 65% of the loan book is EBLR linked (almost everything is linked to repo), 25% linked to MCLR and the balance is other benchmark linked.
- The benefit of the increased interest rate on repo will be seen in the next quarter.
- NIM for the quarter was at 3.95% (-6bps QoQ). Going forward, NIM expected to be in the range of 3.85-4%.
- RoA expected to be at 1.5% by FY23E.
- Bank has a branch expansion plan of 50-75 branches during current financial year.
- Cost to Income ratio expected to be in the range of 40-45% in FY23, due to lower treasury income.
- With an excess liquidity bank has, about INR 2,500-3000 cr worth of loans can be disbursed without raising or increasing deposits and the bank can go up to a CD ratio of 90%.
- Restructured book stands at INR 2,034 cr, out of which, for amount of INR 1,175 cr outstanding (58% of the restructured book) where the repayment has already started and for the remaining INR 859 cr repayment is yet to start.
- The slippages from the restructured book amounted to INR 57 cr as compared with INR 44 cr in Q4FY22.
- SMA2 book stands at INR 820 cr (~2% of advances) which includes accounts from the ECLGS, restructured and the regular advances.
- Recovery from technical written-off a/cs was INR 101 cr, where there was one bigger recovery of INR 40-45 cr from one large account.
- Spicejet exposure:** Management of Spicejet has come forward to settle the dues. The management has request to renew the existing facility with terms and conditions. They have been servicing their dues regularly and interest has been paid up to July'22. As per the terms, Spicejet has immediately paid INR 3 cr dues in July'22 and pledged 2 cr shares with the bank as a collateral. The exposure to the account is INR 97 cr, which has been removed from SMA. The bank had provided INR 85 cr earlier and has provided INR 12 cr in Q1FY23, thus fully providing for the exposure. Management will take a call on Spicejet by the end of the year.

Key Financials

Income Statement					Balance Sheet				
Income Statement (Rs Cr)	2021	2022	2023E	2024E	Balance Sheet (Rs Cr)	2021	2022	2023E	2024E
Interest Earned	4135	4105	5508	6413	Sources of funds				
Interest Expended	2305	2188	3115	3520	Share Capital	74	74	74	74
Net Interest Income	1830	1916	2393	2893	Total Reserves	5769	6512	7549	8875
Other Income	705	759	790	883	Shareholder's Fund	5842	6586	7623	8949
Fee Income	262	292	336	386	Deposits	44537	47690	53689	60785
Treasury Income	325	246	339	381	Borrowings	1346	5312	5577	5689
Operating Income	2534	2676	3182	3775	Other Liabilities & provisions	1586	1944	1887	2567
Other Expenses	587	577	663	776	Total Liabilities	53312	61532	68775	77989
Employee Expenses	464	504	603	620	Application of Funds				
Profit before provision & tax	1484	1595	1917	2380	Cash & Bank	5615	6687	6614	7167
Provisions and Contingencies	791	610	530	608	Investments	9436	12221	13829	15498
Profit Before Tax	693	985	1387	1772	Advances	36158	40358	45605	52446
Provision for tax	100	225	349	446	Fixed Assets	233	215	253	312
Exp. Items	0	0	0	0	Other Assets	1870	2050	2474	2567
Profit After Tax	593	760	1038	1326	Total Assets	53312	61531	68775	77989
Ratios %					Ratios %				
Operational Ratios (%)	2021	2022	2023E	2024E	Valuation Ratios (%)	2021	2022	2023E	2024E
Asset Quality					Spread Analysis				
Gross NPA	5.1	4.8	4.1	4.0	Yield on Advances	10.0	10.0	10.0	10.0
Net NPA	3.0	3.0	2.2	1.9	Yield on Investments	6.3	5.8	6.5	6.5
PCR	64.0	64.0	64.0	64.0	Cost of Funds	5.2	4.4	5.5	5.6
Growth					Cost of Deposits	5.2	4.6	6.0	6.1
Advances Growth	6.6	11.6	13.0	15.0	NIM	3.7	3.5	3.8	4.1
Deposit growth	9.1	7.1	12.6	13.2	Interest Spread	4.8	5.6	4.5	4.4
Net Profit Growth	24.4	28.3	36.5	27.8	Profitability				
Liquidity					ROE	10.6	12.2	14.6	16.0
C-D Ratio	81.2	84.6	84.9	86.3	ROA	1.2	1.3	1.6	1.8
CASA	29.1	32.6	34.3	36.4	Earnings Per Share (Rs)	8.0	10.3	14.0	17.9
Capital Adequacy	19.5	17.1	17.5	17.9	Adjusted Book Value (Rs)	64.5	72.9	89.4	107.2
Efficiency					Valuation				
Cost Income Ratio	41.5	40.4	39.8	37.0	P / EPS (x)	20.3	15.9	11.6	9.1
Operating Costs to Assets	2.0	1.8	1.8	1.8	P / ABV (x)	2.5	2.2	1.8	1.5

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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