

November 5, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	220		190	
NII (Rs. m)	25,026	29,094	24,668	29,283
% Chng.	1.4	(0.6)		
Op. Profit (Rs. m)	20,452	23,649	19,750	23,843
% Chng.	3.6	(0.8)		
EPS (Rs.)	15.7	18.4	14.7	18.6
% Chng.	7.2	(1.3)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII (Rs m)	19,165	22,832	25,026	29,094
Op. Profit (Rs m)	15,953	17,636	20,452	23,649
PAT (Rs m)	7,602	9,652	11,647	13,613
EPS (Rs.)	10.3	13.5	15.7	18.4
Gr. (%)	-	-	-	-
DPS (Rs.)	0.5	1.1	1.1	1.3
Yield (%)	0.3	0.6	0.6	0.7
NIM (%)	3.7	3.9	3.8	3.8
RoAE (%)	12.2	14.2	14.5	14.7
RoAA (%)	1.6	1.5	1.6	1.7
P/BV (x)	2.1	1.9	1.6	1.4
P/ABV (x)	2.6	2.2	1.9	1.6
PE (x)	18.5	14.0	12.1	10.3
CAR (%)	20.9	21.4	21.4	20.8

Key Data

CTBK.BO | CUBK IN

52-W High / Low	Rs.197 / Rs.109	
Sensex / Nifty	60,950 / 18,117	
Market Cap	Rs.141bn/ \$ 1,705m	
Shares Outstanding	740m	
3M Avg. Daily Value	Rs.679.27m	

Shareholding Pattern (%)

Promoter's	-
Foreign	21.32
Domestic Institution	40.14
Public & Others	38.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.9	43.8	9.1
Relative	4.7	31.4	7.5

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City Union Bank (CUBK IN)

Rating: BUY | CMP: Rs190 | TP: Rs220

Earnings quality improving each quarter

Quick Pointers:

- Core earnings beat by 13% led by better NII and asset quality.
- Bank is optimistic to achieve 15-18% YoY loan growth.

CUBK saw another a strong quarter with core earnings at Rs2.3bn beating our estimates by 13% led by better NII and asset quality. Loan growth was higher at ~13% YoY and bank is confident of achieving 15-18% loan growth in FY23E. Slower deposit growth would not hamper near term asset accretion as bank carries excess liquidity of Rs30-35bn. Quarterly NIM at 4.14% was higher by 9bps and we expect NIM for FY23 to improve by 20bps YoY as EBLR linked pool is higher at 65%. GNPA reduced by 29bps QoQ to 4.4% due to higher recoveries. CUBK has been surpassing its guidance with earnings quality improving each quarter. We raise FY23/24 PAT by 10%/7% and expect RoA/RoE to reach 1.6%/15% in FY25E. We increase multiple from 1.9x to 2.0x and further re-rating would hinge on higher loan growth and stress reduction. Roll forward to Sep'24 ABV and revise TP from Rs190 to Rs220. Retain BUY

- Beat on all fronts:** NII was higher at Rs5.68bn (PLe Rs5.5bn) due to better NIM at 4.14% (PLe 4.04%) and loan growth at 12.9% YoY (PLe 11.3%). NIM was a beat due to lower funding cost. Deposit growth at 7.7% YoY was largely in-line while CASA ratio was stable QoQ at 31%. Other income as expected was Rs1.7bn with higher fees and treasury. Opex was lower at Rs2.85bn (PLe Rs3.2bn) due to one-time write-back in other opex. PPOp was a beat at Rs4.6bn (PLe Rs4.0bn) while core PPOp at Rs4.1bn was higher by 10%. Provisions were mainly in-line at Rs1bn being largely related to NPA ageing. GNPA/NNPA improved QoQ by 29/20bps to 4.37%/2.69% due to stronger NPA recoveries. PAT was ahead at Rs2.76bn (PLe Rs2.34bn).
- Bank optimistic to achieve 15-18% loan growth:** Bank is fairly confident of achieving loan growth of 15-18% in FY23 which would be attained by increasing risk appetite at branch level coupled with expanding distribution network. Loan growth would be stronger in Q4FY23 as investment cycle gathers further pace in H2FY23. With credit offtake likely to reach normalcy in core sectors, share of gold loans could reduce. Deposit accretion lagging credit offtake would not hamper near term credit growth since bank carries excess liquidity of Rs30-35bn indicating that LDR can reach ~90%. Hence TD rate hike has been much lower to peers. Levers are in place for NIM to improve over FY22-23 from 3.7% to 3.9% as 65% of loans are EBLR linked and ~40% of repo hike has been passed on.
- Asset quality improving:** Slippages at Rs2.6bn were in-line, while recoveries were stronger at Rs1.9bn (PLe Rs2.5bn). Slippage ratio guidance of 2-2.5% of FY23 closing loans is intact as stressed pool is performing well which would keep credit costs controlled. OTR pool stood at 4.6% (Rs19.6bn) with PCR at ~10%. Repayment has already started for 62% of OTR pool and of the remaining 42%, 87% has paid 1 or more EMIs. Spicejet has been regularly servicing their dues and of the total Rs1bn exposure, Rs0.175bn has already been repaid; remaining Rs0.825bn would be due by June'23.

Exhibit 1: Better NII and other income lead to earnings beat

P&L Statement (Rs m)	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Interest Income	11,812	10,222	15.6	10,994	7.4
Interest Expended	6,133	5,439	12.8	5,745	6.7
Net interest income (NII)	5,679	4,783	18.7	5,249	8.2
-Treasury income	455	519	(12.3)	209	117.7
Other income	1,735	2,028	(14.4)	2,175	(20.3)
Total income	7,414	6,810	8.9	7,424	(0.1)
Operating expenses	2,849	2,759	3.3	2,953	(3.5)
-Staff expenses	1,412	1,270	11.2	1,327	6.4
-Other expenses	1,437	1,490	(3.5)	1,626	(11.6)
Operating profit	4,565	4,051	12.7	4,471	2.1
Core Operating Profit	4,110	3,532	16.4	4,262	(3.6)
Total provisions	1,050	1,480	(29.1)	1,520	(30.9)
Profit before tax	3,515	2,571	36.7	2,951	19.1
Tax	750	750	-	700	7.1
Profit after tax	2,765	1,821	51.8	2,251	22.8
Balance Sheet (Rs m)					
Deposits	498,776	463,161	7.7	487,721	2.3
Advances	419,130	371,314	12.9	401,363	4.4
Ratios (%)					
NIM	4.1	3.9	21	4.0	13.2
RoaA	1.8	1.4	47	1.6	27
RoaE	16.8	12.4	437	14.1	271
Asset Quality					
Gross NPL (Rs m)	18,618	21,193	(12.2)	19,035	(2.2)
Net NPL (Rs m)	11,287	12,941	(12.8)	11,612	(2.8)
Gross NPL ratio	4.37	5.58	(121.78)	4.66	(29)
Net NPL ratio	2.69	3.49	(79.21)	2.89	(20)
Coverage ratio (Calc)	39.4	38.9	44	39.0	38
Business & Other Ratios					
Low-cost deposit mix	31.3	29.0	234	31.5	(25)
Cost-income ratio	38.4	40.5	(208)	39.8	(134)
Non int. inc / total income	23.4	29.8	(637)	29.3	(590)
Credit deposit ratio	84.0	80.2	386	82.3	174
CAR	20.1	19.2	84	20.5	(40)
Tier-I	1.1	1.1	-	1.1	-

Source: Company, PL

NII growth was good at ~18.7% YoY led by better margins.

Other income growth was driven mainly by treasury income.

Opex was higher due to both employee and other opex

Overall provisioning come off as slippages decline.

Loan growth was tad better at 12.9% YoY, deposits growth was decent at 9.3% YoY.

NIM to remain range bound

Asset quality metrics was decent led by better recoveries and upgrades despite slippages.

CASA slightly reduced to 31.3%

Q2FY23 Conference Call Highlights

Assets & Liabilities – Commentary & build-up

- Environment continued to improve with growth coming back, which resulted in reaching ROA of +1.5% during the quarter. Management guided for credit growth in the region of 15-18% with improved economic push (though Ukraine war, oil prices and inflation remains overhang) for FY23 with ROA improving to +1.5%.
- Credit growth would be higher during the year end as management expects the investment cycle to gather pace in H2FY23. With normalcy in the credit offtake in core sectors, share of gold loan is expected to come off. With increase in yields, BT-outs have reduced
- To increase the fee income, management has been planning to increase credit card, introduce vehicle loans and home loans.
- Currently, management believes bank has enough liquidity to fund growth for the current year and there is room expansion of CD ratio by 3-4%.

NIMs/Yields

- For Q2FY23, bank reported NIM of 4.09% which is expected to remain range bound between 3.8-4%. ~65% of loans are linked to EBLR, 25% to MCLR and balance 10% to T-bills. Currently, the gap between rate hikes with RBI is 30-40bps. TD rates haven't been hikes much as bank has excess liquidity of Rs30-35bn to fund growth
- Bank plans to add 50-75 branches by the end of FY23, most of it would be in Q4FY23 and plans to increase employee headcount as well.
- Other opex during the quarter have declined by 11.6%YoY/3.5%QoQ as the yields went up and lowering the establishment expenses
- C/I ratio is hence expected to remain elevated in the range 42-45% owing to lower treasuries and higher costs.

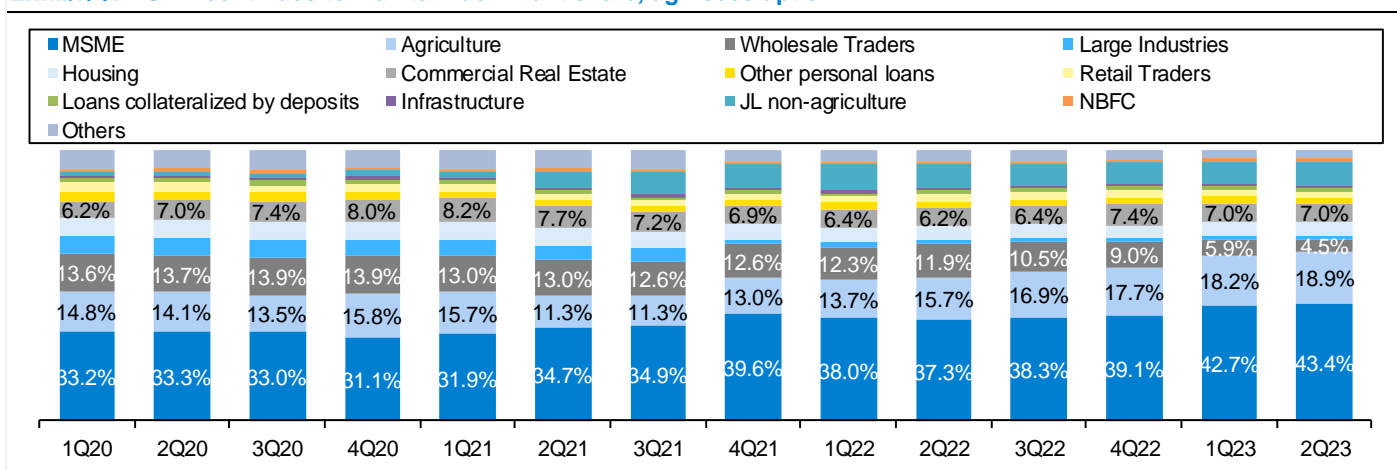
Asset Quality

- As on September 30, 2022, total outstanding restructured borrower accounts was 1772 amounting to Rs.19.6bn or 4.6% of the book, against which bank has provisions of Rs.1.6bn and Rs0.4bn towards erosion on FV of accounts. Of the total, 62% of borrowers have started repayments. SMA 2 book of the OTR pool is ~Rs.2bn.
- With regards to the SpiceJet account, the company has been servicing its dues regularly, interest dues have been repaid as per the agreed schedule. Out of Rs1bn, 0.175bn has already been repaid, the remaining Rs0.825 bn would be due by June'23.
- Slippages would stabilize to pre-covid levels of 2-2.5% over the course. Recovery trends remain strong and in the same range.

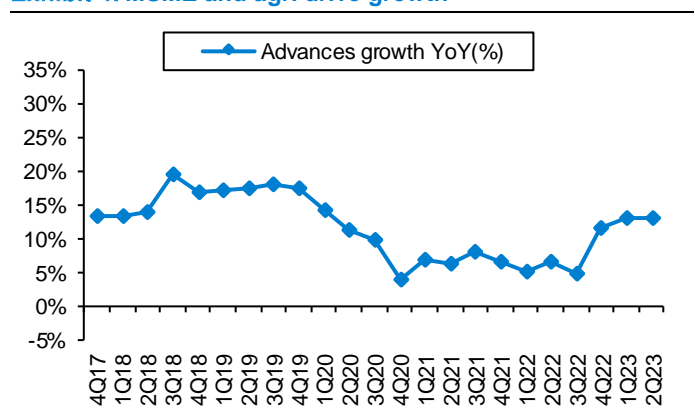
Exhibit 2: MSME growth rebounds, while others were sequentially slow

Advances break-up (Rs m)	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
MSME	185,427	141,816	30.8	174,920	6.0
Agriculture	80,673	59,825	34.8	74,353	8.5
Wholesale Traders	19,017	45,280	(58.0)	24,322	(21.8)
Large Industries	6,945	6,251	11.1	6,258	11.0
Housing	20,483	20,214	1.3	19,809	3.4
Commercial Real Estate	29,748	23,698	25.5	28,741	3.5
Other personal loans	9,217	9,062	1.7	9,470	(2.7)
Retail Traders	9,063	10,332	(12.3)	9,352	(3.1)
Loans collateralized by deposits	6,379	5,691	12.1	5,936	7.5
Infrastructure	3,329	3,154	5.5	3,490	(4.6)
JL non-agriculture	37,960	33,554	13.1	34,579	9.8
NBFC	4,532	3,460	31.0	4,207	7.7
Others	14,243	17,785	(19.9)	13,904	2.4
Total Advances	427,016	380,122	12.3	409,341	4.3

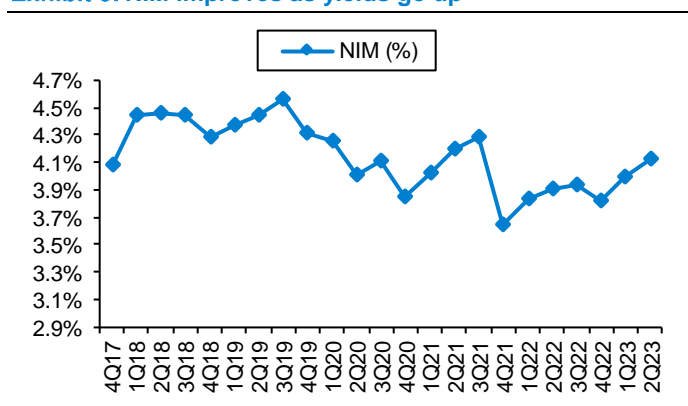
Source: Company, PL

Exhibit 3: MSME continues to maintain dominant share, agri sees uptick


Source: Company, PL

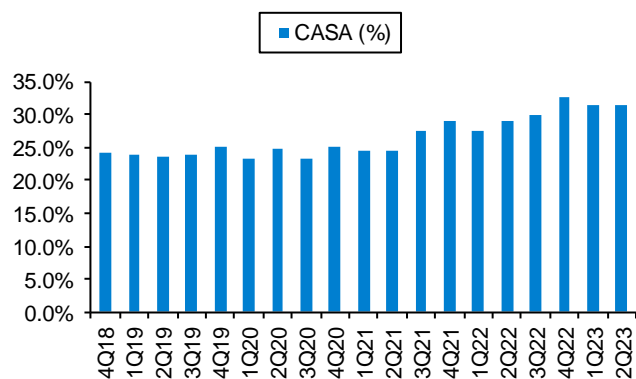
Exhibit 4: MSME and agri drive growth


Source: Company, PL

Exhibit 5: NIM improves as yields go up


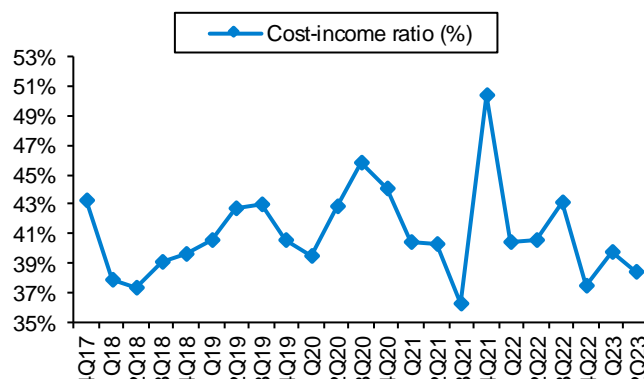
Source: Company, PL

Exhibit 6: CASA accretions stable



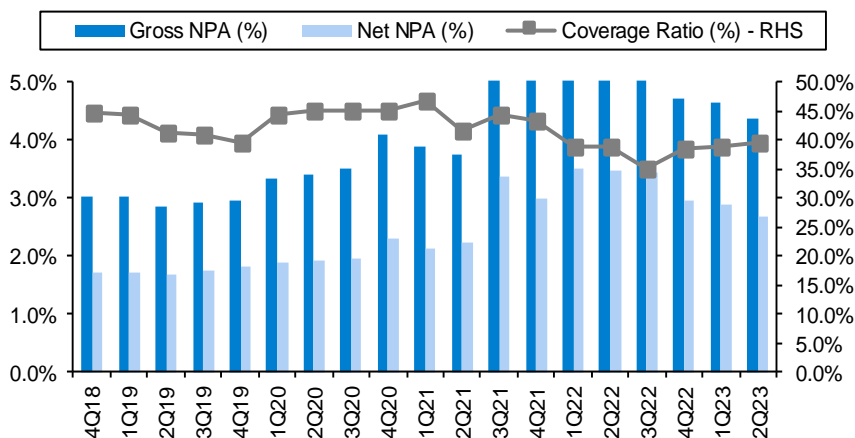
Source: Company, PL

Exhibit 7: C/I to remain in 42-43% range



Source: Company, PL

Exhibit 8: Slippages steady, PCR inches up to 40%

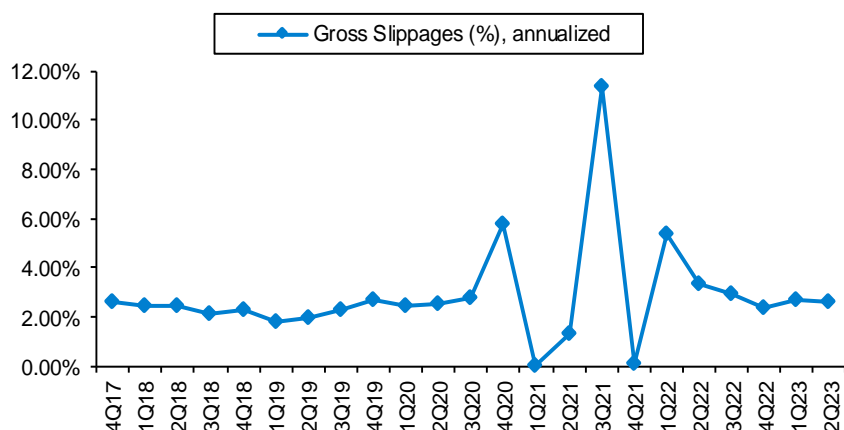


Source: Company, PL

Exhibit 9: Fresh slippages were stable, while recoveries were strong

Movement of NPL	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
Opening	19,035	20,354	(6.5)	19,332	(1.5)
Additions	2,615	2,974	(12.1)	2,702	(3.2)
Reduction	3,032	2,135	42.0	2,999	1.1
Closing	18,618	21,193	(12.2)	19,035	(2.2)
Slippages (%)	2.65	3.31	(66)	2.86	(21)

Source: Company, PL

Exhibit 10: Slippages were steady


Source: Company, PL

Exhibit 11: Return ratios are on track to see mid-tier levels

Du-pont Analysis	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII/Assets	3.6	3.8	3.8	3.5	3.6	3.3	3.5	3.5	3.5
Other inc./Assets	1.4	1.4	1.2	1.4	1.3	1.3	1.2	1.3	1.3
Net revenues/Assets	5.0	5.2	5.0	5.0	4.9	4.7	4.7	4.8	4.9
Opex/Assets	2.1	2.0	2.1	2.1	2.0	1.9	1.9	2.0	2.0
Provisions/Assets	0.9	1.1	0.7	1.6	1.5	1.1	0.8	0.7	0.7
Taxes/Assets	0.6	0.5	0.6	0.2	0.2	0.4	0.5	0.5	0.5
ROA (%)	1.5	1.6	1.6	1.0	1.2	1.3	1.5	1.6	1.7
ROE (%)	14.9	15.1	15.2	9.4	10.6	12.2	14.2	14.5	14.7

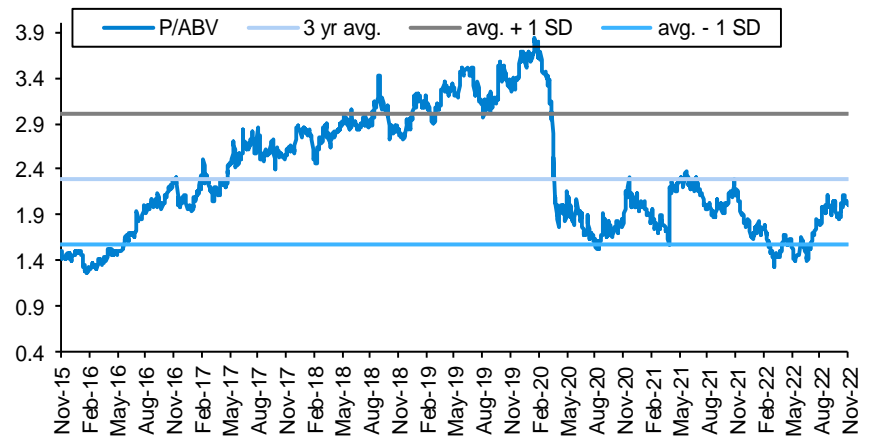
Source: Company, PL

Exhibit 12: We marginally tinker our estimates and raise our TP

Earnings Estimates Changes (Rs mn)	Earlier		Revised		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	22,133	24,668	22,832	25,026	3.2	1.4
Operating profit	17,703	19,750	17,989	20,452	1.6	3.6
Net profit	9,079	10,864	10,006	11,647	10.2	7.2
Loan Growth (%)	14.0	15.0	15.0	15.0	7.0	(0.3)
Credit Cost (bps)	136.9	114.0	112.2	106.7	(18.0)	(6.4)
EPS (Rs)	12.28	14.69	13.5	15.7	10.2	7.2
ABVPS (Rs)	85	98	86.8	101.2	2.1	3.1
Price target (Rs)	190		220		15.8	
Recommendation	BUY		BUY			

Source: Company, PL

Exhibit 13: City Union Bank One-year forward P/ABV chart



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Earned from Adv.	34,540	39,912	50,154	60,119
Int. Earned from invt.	6,305	8,508	9,811	11,336
Others	203	408	454	505
Total Interest Income	41,048	48,828	60,419	71,960
Interest Expenses	21,883	25,997	35,393	42,865
Net Interest Income	19,165	22,832	25,026	29,094
Growth(%)	4.7	19.1	9.6	16.3
Non Interest Income	7,591	7,107	9,693	10,860
Net Total Income	26,756	29,939	34,719	39,955
Growth(%)	0.8	15.0	25.3	18.1
Employee Expenses	5,036	5,822	6,642	7,572
Other Expenses	4,916	6,481	7,626	8,734
Operating Expenses	10,803	12,303	14,268	16,306
Operating Profit	15,953	17,636	20,452	23,649
Growth(%)	8.7	10.5	16.0	15.6
NPA Provision	5,535	4,880	4,759	5,402
Total Provisions	6,101	4,870	5,325	5,969
PBT	9,852	12,766	15,126	17,680
Tax Provision	2,250	3,113	3,479	4,066
Effective tax rate (%)	22.8	24.4	23.0	23.0
PAT	7,602	9,652	11,647	13,613
Growth(%)	28.2	27.0	20.7	16.9

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Face value	1	1	1	1
No. of equity shares	740	740	740	740
Equity	740	740	740	740
Networth	65,857	75,123	85,930	98,817
Growth(%)	12.7	14.1	14.4	15.0
Adj. Networth to NNPA's	11,911	10,931	11,056	11,550
Deposits	4,76,897	5,16,892	6,09,933	7,02,073
Growth(%)	7.1	8.4	18.0	15.1
CASA Deposits	1,55,294	1,59,772	1,90,299	2,19,047
% of total deposits	32.6	30.9	31.2	31.2
Total Liabilities	6,15,309	6,71,909	7,69,031	8,77,830
Net Advances	4,03,585	4,64,256	5,33,839	6,14,563
Growth(%)	11.6	15.0	15.0	15.1
Investments	1,22,212	1,33,920	1,46,384	1,68,497
Total Assets	6,15,309	6,80,193	7,69,031	8,77,830
Growth (%)	15.4	10.5	13.1	14.1

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs (Rs m)	19,332	18,218	18,894	19,836
Net NPAs (Rs m)	11,911	10,931	11,056	11,550
Gr. NPAs to Gross Adv.(%)	4.7	3.9	3.5	3.2
Net NPAs to Net Adv. (%)	3.0	2.4	2.1	1.9
NPA Coverage %	38.4	40.0	41.5	41.8

Profitability (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	3.7	3.9	3.8	3.8
RoAA	1.6	1.5	1.6	1.7
RoAE	12.2	14.2	14.5	14.7
Tier I	19.8	19.4	19.1	18.8
CRAR	20.9	21.4	21.4	20.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Interest Income	10,352	10,499	10,994	11,812
Interest Expenses	5,453	5,493	5,745	6,133
Net Interest Income	4,900	5,007	5,249	5,679
YoY growth (%)	0.2	16.8	17.3	18.7
CEB	721	788	850	799
Treasury	-	-	-	-
Non Interest Income	1,600	2,030	2,175	1,735
Total Income	11,952	12,529	13,170	13,547
Employee Expenses	1,338	1,136	1,327	1,412
Other expenses	1,466	1,502	1,626	1,437
Operating Expenses	2,804	2,638	2,953	2,849
Operating Profit	3,696	4,398	4,471	4,565
YoY growth (%)	(19.4)	54.5	16.7	12.7
Core Operating Profits	3,286	3,896	4,262	4,110
NPA Provision	-	2,188	1,400	-
Others Provisions	1,235	1,709	1,520	1,050
Total Provisions	1,235	1,709	1,520	1,050
Profit Before Tax	2,461	2,690	2,951	3,515
Tax	500	600	700	750
PAT	1,961	2,090	2,251	2,765
YoY growth (%)	15.4	87.9	30.1	51.8
Deposits	4,67,217	4,76,897	4,87,721	4,98,776
YoY growth (%)	7.9	7.1	9.3	7.7
Advances	3,76,290	4,03,585	4,01,363	4,19,130
YoY growth (%)	4.8	11.6	12.9	12.9

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	190	190	190	190
EPS (Rs)	10.3	13.5	15.7	18.4
Book Value (Rs)	89	102	116	134
Adj. BV (Rs)	73	87	101	118
P/E (x)	18.5	14.0	12.1	10.3
P/BV (x)	2.1	1.9	1.6	1.4
P/ABV (x)	2.6	2.2	1.9	1.6
DPS (Rs)	0.5	1.1	1.1	1.3
Dividend Payout Ratio (%)	18.7	16.9	17.2	19.5
Dividend Yield (%)	0.3	0.6	0.6	0.7

Efficiency

Y/e Mar	FY22	FY23E	FY24E	FY25E
Cost-Income Ratio (%)	40.4	41.1	41.1	40.8
C-D Ratio (%)	84.6	89.8	87.5	87.5
Business per Emp. (Rs m)	164	179	205	232
Profit per Emp. (Rs lacs)	14	18	21	24
Business per Branch (Rs m)	1,211	1,263	1,383	1,501
Profit per Branch (Rs m)	10	12	14	16

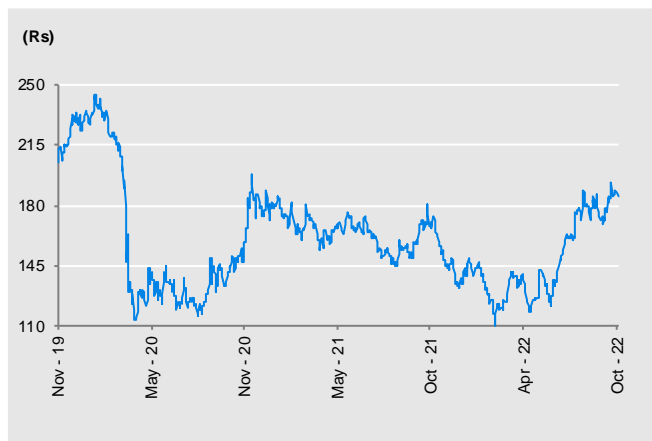
Du-Pont

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	3.34	3.52	3.45	3.53
Total Income	5.26	5.20	5.63	5.73
Operating Expenses	1.88	1.90	1.97	1.98
PPoP	3.38	3.30	3.66	3.74
Total provisions	1.06	0.75	0.73	0.72
RoAA	1.32	1.54	1.61	1.65
RoAE	12.23	14.19	14.46	14.74

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-22	BUY	190	173
2	09-Aug-22	BUY	190	163
3	08-Jul-22	BUY	170	145
4	28-May-22	BUY	170	127
5	09-Apr-22	BUY	180	140

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,990
2	Axis Bank	BUY	1,080	826
3	Bank of Baroda	Accumulate	130	133
4	Can Fin Homes	BUY	700	524
5	City Union Bank	BUY	190	173
6	DCB Bank	BUY	120	103
7	Federal Bank	BUY	165	130
8	HDFC	BUY	3,000	2,489
9	HDFC Bank	BUY	1,800	1,439
10	ICICI Bank	BUY	1,090	907
11	IDFC First Bank	UR	-	53
12	IndusInd Bank	BUY	1,450	1,218
13	Kotak Mahindra Bank	Accumulate	2,100	1,903
14	LIC Housing Finance	Accumulate	410	367
15	Punjab National Bank	BUY	50	36
16	State Bank of India	BUY	650	533

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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