

Retail Equity Research

City Union Bank Ltd.

Banking

BSE CODE : 532210 NSE CODE: CUB
 BLOOMBERG CODE: CUBK:IN SENSEX : 61,003

ACCUMULATE

12 Months Investment Period Rating as per Small Cap

CMP Rs. 139 TARGET Rs. 159 RETURN 15% ↑
 (Closing: 17-02-2023)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Moderating the valuation to factor slower growth

City Union Bank Ltd. (CUB), the oldest private sector bank in India, is a mid-sized commercial bank headquartered in Tamil Nadu, with a network of 752 branches spread across the country and a loan book size of Rs.43,009cr .

- Business growth was subdued compared to industrial growth, with advances and deposits growing flat sequentially.
- The bank has been focusing on low yield gold loan disbursement and as a result, the portfolio grew by 31% YoY, constituting 25% of the total loan book.
- Yield on advances declined 23bps sequentially to 9.16% and as a result, NIM contracted 21bps sequentially to 3.88%.
- Due to the impact of NPA divergence, net profit declined 21% QoQ
- Asset quality took a hit due to higher slippages. GNPA/NNPA stands at 4.62%/2.61%, against 4.36%/2.61% during Q2FY23.
- We recommend Accumulate rating on the stock based on 1.35x Adj BVPS of FY25E with a target price of Rs. 159 .

Muted business growth

In Q3FY23, banks total business witnessed a muted growth of just 9% YoY while remained flat on QoQ. Deposits grew by 7% YoY and stayed flat sequentially, while advances grew 12% YoY and 1% QoQ. As per the management, due to lag in deposit growth, management refrained from aggressive loan disbursement despite having excess liquidity of around Rs.3,000cr. Management also expects credit growth to be slower in FY23 compared to previously guided 15-18%. The bank has been focusing on gold loan disbursement and as a result, the portfolio grew by 31% YoY, constituting 25% of the total loan book. On the deposit front, CASA declined 6% sequentially as funds moved to fixed deposits as the interest rates inched up. Fixed deposits grew by 8% YoY and 3% QoQ. As a result, CASA ratio of the bank declined to 29.2% compared to 31.3% QoQ. We expect a moderate growth of 11% in advances and 10% in deposits over FY23-25E. Capital Adequacy Ratio of the bank stands strong at 20.5%.

RBI divergence impacted quarter's performance

Net Interest Income (NII) for the quarter grew by 13% YoY while declined 2% QoQ as interest income witnessed a growth of 17% YoY and 2% QoQ and interest expense grew by 19% YoY and 6% QoQ. Net Interest Margin showed a sequential decline of 21bps to 3.88%. Cost of deposit increased by 11bps sequentially to 4.62% while yield on advances declined 23bps sequentially to 9.16%. Decline in yield despite rate hike was partly due to non-recognition of interest income amounting to Rs.32cr and because of increasing mix of gold loan which have a lower yield compared to the average yield of the bank. Other income grew by 40% YoY while operating expenses remained flat due to lower employee expense, keeping cost-income ratio low at 36%. As a result pre-provision profit of the bank grew by 35% YoY and 9% QoQ. However, due to the impact of NPA divergence, provisioning for the quarter remained elevated at Rs.225cr compared to Rs.105cr in Q2, resulting in 21% QoQ decline in net profit.

Asset quality expected to improve gradually

During the quarter, asset quality took a hit due to higher slippages. Total slippages for the quarter stood at 1%. Of the total gross slippage of Rs.439cr, the impact of NPA divergence amounts to Rs.140cr. As a result GNPA for the quarter surged 26bps to 4.62%. Total restructured book stood at 4.0% of the advances, compared to 4.6% last quarter. Management expects slippage ratio of 2.5%-2.8% in FY23 and gradually subside to 2.0%-2.5% going forward. We anticipate a gradual recovery in asset quality, with GNPA at 4.0% by the end of FY24.

Outlook and valuation

Bank has shown a dismal performance with lower than industry growth and elevated slippages. We expect business growth and asset quality to improve gradually going forward. Higher slippage guidance of 2.0%-2.5% will keep credit cost elevated. With cautious growth outlook, we downgrade our valuation to 1.35x FY25E Adj BVPS. Considering the recent correction in the stock, we expect decent upside and recommend Accumulate rating with a target price of Rs.159.

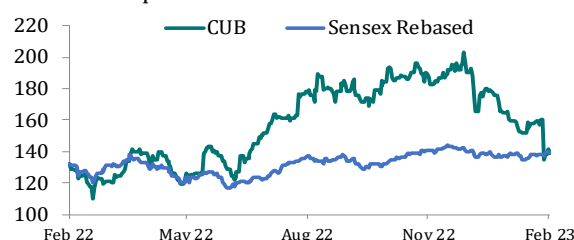
Company Data

Market Cap (Rs cr)	10,309.8
Outstanding Shares (cr)	74.0
Free Float (%)	100.0
Dividend Yield (%)	0.7
52 week high (Rs)	205.0
52 week low (Rs)	108.6
6m average volume (cr)	0.4
Beta	1.1
Face value (Rs)	1.0

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	0	0	0
FII's	18.	21	24
MFs/Institutions	42	40	38
Public/others	40	39	39
Total	100	100	100
Promoter pledge	-	-	-

Price Performance	3 month	6 month	1 year
Absolute Return	-23.8%	-20.8%	5.7%
Absolute Sensex	-0.8%	2.6%	5.7%
Relative Return*	-23.0%	-23.4%	0.0%

*over or under performance to benchmark index



Standalone (Rs cr)	FY23E	FY24E	FY25E
NII	2,186	2,422	2,674
Growth(%)	14.1	10.8	10.4
NIM(%)	4.10	4.13	4.14
Provisions	514	525	584
Adj. PAT	1,017	1,154	1,255
Growth(%)	33.7	13.5	8.8
Adj. EPS	14.1	16.0	17.4
Growth(%)	38.3	13.5	8.8
BVPS	101.8	116.4	132.4
Adj BVPS	86.7	101.9	118.0
P/E	10.0	8.8	8.1
P/B	1.4	1.2	1.1
Adj. P/B	1.6	1.4	1.2
ROE (%)	14.4	14.3	13.6

Cyril Charly
 Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q3FY23	Q2FY23	QoQ Growth (%)	Q3FY22	YoY Growth (%)	9MFY23	9MFY22	YoY Growth (%)
Interest Income	1,206	1,181	2.1	1,035	16.5	3,486	3,055	14.1
Interest Expense	650	613	6.0	545	19.2	1,838	1,639	12.1
Net Interest Income (NII)	556	568	-2.1	490	13.4	1,649	1,416	16.4
Fee and Other Income	224	173	29.3	160	40.2	615	558	10.2
Total Income	780	741	5.2	650	20.0	2,264	1,974	14.7
Expenditure	283	285	-0.8	280	0.8	863	816	5.7
Pre-Provision Profit	497	456	9.0	370	34.6	1,401	1,158	21.0
Provision	225	105	113.8	124	81.8	482	442	9.1
PBT	273	351	-22.4	246	10.9	919	716	28.4
Tax	55	75	-26.7	50	10.0	200	165	21.2
Reported PAT	218	276	-21.2	196	11.1	719	551	30.5
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	218	276	-21.2	196	11.1	719	551	30.5
Diluted EPS (Rs)	2.92	3.70	-21.1	2.62	11.5	9.72	7.45	30.5

Change in Estimates

Year / Rs cr	Old Estimates		New Estimates			Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Net Interest Income (NII)	2,163	2,464	2,186	2,422	2,674	1.1	-1.7
Net Interest Margin (%)	4.05	4.16	4.10	4.13	4.14	5	-3
Pre-Provision Profit	1,794	2,003	1,879	2,074	2,268	4.7	3.5
Adj. PAT	952	1,095	1,017	1,154	1,255	6.8	5.4
Diluted EPS (Rs)	13.2	15.2	14.1	16.0	17.4	6.8	5.3

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Interest Income	4,135	4,105	4,571	5,105	5,625
Interest Expense	2,305	2,188	2,384	2,683	2,951
Net Int. Income	1,830	1,916	2,186	2,422	2,674
<i>Change</i>	<i>9.2%</i>	<i>4.7%</i>	<i>14.1%</i>	<i>10.8%</i>	<i>10.4%</i>
Non Int. Income	689	759	826	879	899
Operating Income	2,518	2,676	3,012	3,300	3,573
<i>Change</i>	<i>6.9%</i>	<i>6.2%</i>	<i>12.6%</i>	<i>9.6%</i>	<i>8.3%</i>
Operating Exp.	1,051	1,080	1,133	1,227	1,305
Pre Prov. Profit	1,468	1,595	1,879	2,074	2,268
Prov. & Conting.	775	610	514	525	584
PBT	693	985	1,365	1,548	1,685
<i>Change</i>	<i>18.1%</i>	<i>42.2%</i>	<i>38.5%</i>	<i>13.5%</i>	<i>8.8%</i>
Tax	100	225	348	395	430
Tax Rate (%)	14%	23%	26%	26%	26%
Reported PAT	593	760	1017	1154	1255
Adjustment	0	0	0	0	0
Adj. PAT	593	760	1,017	1,154	1,255
<i>Change</i>	<i>24.4%</i>	<i>28.2%</i>	<i>33.7%</i>	<i>13.5%</i>	<i>8.8%</i>
No. of shares (Cr)	74	74	74	74	74
EPS (Rs)	8.0	10.2	14.1	16.0	17.4
<i>Change</i>	<i>20.8%</i>	<i>27.7%</i>	<i>38.3%</i>	<i>13.5%</i>	<i>8.8%</i>

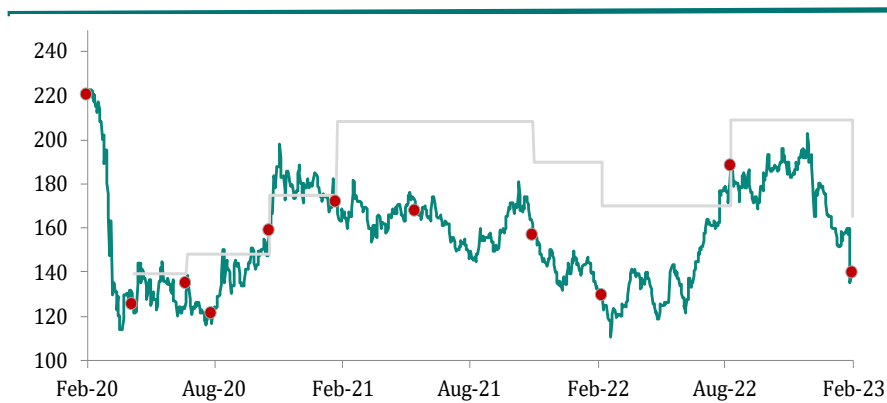
BALANCE SHEET

Y.E March (Rs Cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	5,615	6,687	2,502	3,198	3,886
Loans & Advances	36,158	40,358	45,361	50,154	55,971
Investments	9,436	12,221	10,502	11,132	11,800
Net Fixed Assets	233	215	410	480	0
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	1,870	2,050	5,874	6,495	7,248
Total Assets	53,312	61,531	64,649	71,459	78,906
Deposits	44,537	47,690	51,621	56,950	62,906
Debt Funds	1,346	5,312	3,500	3,684	3,791
Other Liabilities and provision	1,586	1,944	1,997	2,214	2,414
Equity Capital	74	74	74	74	74
Reserves & Surplus	5,769	6,512	7,456	8,538	9,720
Shareholder's Funds	5,842	6,586	7,530	8,612	9,794
Total Liabilities	53,312	61,531	64,649	71,459	78,906
BVPS (Rs)	79	89	102	116	132
<i>Change</i>	<i>10.3%</i>	<i>11.9%</i>	<i>15.1%</i>	<i>14.4%</i>	<i>13.7%</i>
Adj. BVPS (Rs)	65	73	87	102	118
<i>Change</i>	<i>5.5%</i>	<i>12.4%</i>	<i>18.9%</i>	<i>17.5%</i>	<i>15.9%</i>

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return					
Yield on Advances (%)	9.2	8.5	8.6	8.7	8.7
Cost of Deposits (%)	5.2	4.4	4.4	4.6	4.6
Spread(%)	4.1	4.1	4.2	4.1	4.1
NIM (%)	4.1	4.0	4.1	4.1	4.1
ROE (%)	10.6	12.2	14.4	14.3	13.6
ROA(%)	1.2	1.3	1.6	1.7	1.7
Business Growth					
Loans & Advances (%)	6.6	11.6	12.4	10.6	11.6
Deposits (%)	9.1	7.1	8.2	10.3	10.5
Operating Ratios					
Cost to Income (%)	41.7	40.4	37.6	37.2	36.5
CASA (%)	29.1	32.6	29.0	29.1	29.2
Asset Quality					
GNPA (%)	5.1	4.7	4.4	4.0	3.6
NNPA (%)	2.9	2.9	2.5	2.3	2.1
Capital Adequacy					
CAR (%)	19.5%	20.9%	21.1%	21.0%	21.0%
Valuation					
P/E (x)	17.7	13.9	10.0	8.8	8.1
P/B (x)	1.8	1.6	1.4	1.2	1.1
Adj. P/B (x)	2.2	1.9	1.6	1.4	1.2

Recommendation Summary (last 3 years)



Dates	Rating	Target
18.Feb.20	Reduce	201
22.Apr.20	Hold	139
08.Jul.20	Accumulate	148
14.Aug.20	Buy	148
04.Nov.20	Accumulate	175
08.Feb.21	Buy	208
02.Jun.21	Buy	208
17.Nov.21	Buy	190
23.Feb.22	Buy	170
26.Aug.22	Accumulate	209
20.Feb.23	Accumulate	159

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/Neutral	-	-	-

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/Neutral: 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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