

CMP: Rs 196

Rating: HOLD

Target Price: Rs 215

**Stock Info**

INDEX	
BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CTBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs cr.)	73
Mkt Cap (Rs cr.)	14,293
52w H/L (Rs)	220/157
Weekly Avg Vol (BSE+NSE)	495,620

**Shareholding Pattern**

	%
<b>(As on June, 2019)</b>	
Promoters	Nil
DII	28.3
FII	24.2
Public & Others	47.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
City Union Bank	-2.3	4.7	9.2
SENSEX	0.1	3.3	-1.2

Source: ACE Equity, Arihant Research

**City Union Bank v/s Sensex**



Source: ACE Equity, Arihant Research

**City Union Bank (CUB) reported stable operating performance while loan book growth moderated during the quarter. NII for the quarter grew by 11% YoY driven by 14% credit growth. High other income growth and moderate rise in expenses led to operating profit growth of 17% YoY. NIM declined by 29bps QoQ to 4.1% on account of decline in CD ratio. Provisions during the quarter were higher owing to elevated slippages and slower recovery resulting in GNPA's inched up by 39bps QoQ to 3.34%. PAT for the quarter stood at Rs 186 cr vs. our estimate of Rs 184 cr. We remain positive on CUB's growth outlook and have Hold rating on the stock.**

**Loan growth moderated to 14% YoY while deposit growth remained strong**

CUB's loan growth moderated to 14% YoY driven by Commercial Real Estate (+44% YoY). Agriculture and retail loan book growth decelerated QoQ to ~14% YoY. Sequentially muted growth was seen in Housing and Infrastructure portfolio. Deposit growth remained strong at 16% YoY led by strong growth in term deposits. CASA deposits were down by 6% while CASA ratio fell to 23.4% vs. 25.2% sequentially. C-D ratio came down to 82.5% vs. 86% QoQ.

**Management Commentary**

- Management reiterated 18-20% credit growth target in FY20, RoA of 1.5-1.6% and RoE >15%. The cost to income ratio would be in the range of ~40%.
- The spike in slippage ratio was on account of an educational institution account worth Rs 50 cr. Management stated that it has no exposure to any of the troubled corporate. The bank sticks to its earlier guidance with respect to slippage ratio of 1.75-2.0% during FY20.
- Management is not witnessing any slowdown or any additional stress in its book.
- Management has guided for NIM around the current level with +/- 10-20 bps variation. The increase in CD ratio will benefit to improve the margin.
- The tax rate was low because of write back of tax provisions. The absolute benefit was Rs 17 cr.
- The bank stated that it has surplus deposits at the moment. As a result, the bank can lend worth Rs 3000 cr without any increase in deposits.
- Management not looking to increase CASA levels.
- Currently, the bank maintains an average yield on advances of 10.75-11%. However, with RBI's rate cut and transmission of the same by reducing MCLR, the yields may come down.
- The bank plans to open 50 branches in FY20.

**Valuation**

We like CUB's business model due to its granular loan book, sustainable performance and healthy return metrics. We expect CUB to report RoAs of ~1.6% and RoE of ~15% over FY21E. Though valuation is expensive, We maintain our 'Hold' rating on the stock with a revised target price of Rs 215 based on P/ABV(x) of 2.7 (x) to its FY 21E ABV giving a potential upside of 10%.

**Q1FY20 Financial Snapshot:**

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
Interest earned	1029	890	15.7%	985	4.5%
Interest expended	612	515	19.0%	564	8.6%
<b>NII</b>	<b>417</b>	<b>375</b>	<b>11.2%</b>	<b>421</b>	<b>-0.9%</b>
NIM	4.11	4.24		4.40	
Non-interest income	163	129	26.5%	147	11.2%
Operating Expenses	229	204	11.9%	230	-0.4%
Employee cost	100.4	87.3	15.0%	91.4	9.8%
Cost-Income ratio	39.4	40.6		40.5	
<b>Operating Profit</b>	<b>351</b>	<b>299</b>	<b>17.4%</b>	<b>338</b>	<b>4.0%</b>
Provisions	116	78	48.9%	91	27.7%
PBT	236	222	6.3%	247	-4.6%
Tax provisions	50	60	-16.7%	72	-30.6%
Effective tax rate	21%	27%		29%	
<b>Net profit</b>	<b>186</b>	<b>162</b>	<b>14.8%</b>	<b>175</b>	<b>6.0%</b>
EPS	2.5	2.4	4.1%	2.4	

Asset Quality (%)					
Particulars	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
GNPA	3.34	3.02		2.95	
NNPA	1.89	1.70		1.81	
PCR	65.0	65.0		63.0	

Quarterly Performance					
Particulars	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
Advances	32230	28215	14%	33065	-3%
Deposits	39077	33597	16%	38448	2%
CASA	9161	8038	14.0%	9698	-5.5%
CASA %	23.4	23.9		25.2	
C-D ratio %	82.5	84.0		86.0	
Capital Adequacy %	15.7	16.1		15.6	

Loan Book Break-up					
Particulars	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
Agriculture	4759.4	4183.1	14%	4878.5	-2%
MSME	10688.4	9574	12%	10280.9	4%
Large Industries	2154.2	1903.8	13%	2218.8	-3%
Retail Traders	1039.1	1025.6	1%	1137.1	-9%
Wholesale Traders	4371.5	3791.3	15%	4588.4	-5%
Commercial Real Estate	2006.4	1391	44%	1954.8	3%
Jewel Loan Non Agriculture	372.1	361.9	3%	350.6	6%
Housing Loans	2114.8	1891	12%	2109.1	0%
Other Personal Loans	1143.5	1109.9	3%	1317.7	-13%
Loans Collateralized By Deposits	524	483.1	8%	582.9	-10%
Infrastructure	353.7	199	78%	353.4	0%
NBFCs	314.1	356.5	-12%	249.4	26%
Others	2388.3	1944.9	23%	3043.6	-22%
<b>Total</b>	<b>32229.5</b>	<b>28215.1</b>	<b>14%</b>	<b>33065.2</b>	<b>-3%</b>

Income Statement			
(Rs Cr)	2019	2020E	2021E
Interest Earned	3767	4637	5327
Interest Expended	2156	2791	3158
<b>Net Interest Income</b>	1611	1847	2169
Other Income	514	604	677
Fee Income	294	338	388
Treasury Income	87	151	174
<b>Operating Income</b>	2126	2451	2847
Operating Expenses	886	1030	1127
Employee Expenses	364	435	449
<b>Profit before provision &amp; tax</b>	1240	1421	1720
Provisions and Contingencies	315	438	508
<b>Profit Before Tax</b>	925	983	1212
Provision for tax	242	246	303
Exp. Items	0	0	0
<b>Profit After Tax</b>	683	737	909

Balance Sheet			
(Rs Cr)	2019	2020E	2021E
<b>Sources of funds</b>			
Share Capital	73	73	73
Total Reserves	4767	5505	6414
<b>Shareholder's Fund</b>	4841	5578	6487
Deposits	38448	44126	50040
Borrowings	481	1023	1792
Other Liabilities & provisions	1489	1806	2309
<b>Total Liabilities</b>	<b>45259</b>	<b>52533</b>	<b>60629</b>
<b>Application of Funds</b>			
Cash & Bank	2963	3207	3552
Investments	7712	9094	10233
Advances	32673	38228	44727
Fixed Assets	250	260	270
Other Assets	1660	1744	1847
<b>Total Assets</b>	<b>45259</b>	<b>52533</b>	<b>60629</b>

Ratios %			
	2019	2020E	2021E
<b>Asset Quality</b>			
Gross NPA	2.96	3.04	2.98
Net NPA	1.81	1.68	1.41
PCR	63.0	64.0	64.0
<b>Growth</b>			
Advances Growth	17.3	17.0	17.0
Deposit growth	17.0	14.8	13.4
Net Profit Growth	15.3	8.0	23.3
<b>Liquidity</b>			
C-D Ratio	85.0	86.6	89.4
CASA	25.2	26.0	27.9
Capital Adequacy	16.1	15.3	15.2
<b>Efficiency</b>			
Cost Income Ratio	41.7	42.0	39.6
Operating Costs to Assets	2.0	2.0	1.9

Ratios %			
	2019	2020E	2021E
<b>Spread Analysis</b>			
Yield on Advances	10.5	11.5	11.3
Yield on Investments	7.1	6.0	6.0
Cost of Funds	5.9	6.6	6.5
Cost of Deposits	5.9	6.6	6.6
NIM	3.9	3.9	4.0
Interest Spread	4.6	4.9	4.8
<b>Profitability</b>			
ROE	15.2	14.2	15.1
Earnings Per Share (Rs)	9.3	10.0	12.4
Dividend Per Share (Rs)	0.3	0.3	0.4
Adjusted Book Value (Rs)	57.9	67.2	79.7
<b>Valuation</b>			
P / EPS (x)	21.1	19.5	15.8
P / ABV (x)	3.4	2.9	2.5

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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