

**CMP: Rs 213**

**Rating: Hold**

**Target Price: Rs 229**

**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.)	15,676
52w H/L (Rs)	227/163
Weekly Avg Vol (BSE+NSE)	887,050

**Shareholding Pattern**

	%
<b>(As on September, 2019)</b>	
Promoters	Nil
DII	30.0
FII	22.9
Public & Others	47.1

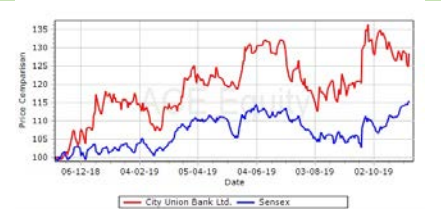
Source: NSE, Arihant Research

**Stock Performance (%)**

	3m	6m	12m
City Union Bank	9.5	8.17	27.4
SENSEX	10.8	6.2	14.0

Source: ACE Equity, Arihant Research

**City Union Bank v/s Sensex**



Source: ACE Equity, Arihant Research

**City Union Bank (CUB) reported mixed set of numbers during Q2FY20. Moderation in loan growth and decline in NIM led to muted NII growth of 3% YoY to Rs 412 cr vs. our estimate of Rs 477 cr. Higher other income growth of 65% YoY resulted into operating profit growth of 17% YoY to Rs 346 cr vs. our estimate of Rs 356 cr. Strong treasury income gain of 270% YoY at Rs 79 cr aided other income growth. PAT for the quarter grew by 15% YoY to Rs 194 cr vs. our estimate of Rs 184 cr mainly due to lower tax rate. Advances growth was moderated to 12% YoY vs. 14% in previous quarter while deposit growth remained strong at 17% YoY. Decline in yield on advances, rising cost of funds and lower investment yields led to compression in NIM at 3.91% vs. 4.11% QoQ. Slippages remained elevated at Rs 200 cr. Management expects slippages to remain at current level for next 1-2 quarter. Asset quality of the bank broadly remained stable with GNPA/NNPA at 3.4%/1.9% vs. 3.34%/1.89% sequentially. We maintain our hold rating on the stock with a revised target price of Rs 229 (Rs 215 earlier).**

**Loan growth moderated further while deposit growth remained strong**

CUB's loan growth was further moderated to 12% YoY from 14% YoY in previous quarter mainly due to lower growth in MSME and Agri portfolio. Credit growth in commercial real estate was +60% YoY due to regulatory changes/reclassification of loans. Due to current economic environment, management expects lower loan growth (earlier guidance was 18-20% for FY20) without compromising on asset quality. Deposit growth remained strong at 17% YoY, supported by high growth in savings deposit. CASA ratio improved to 24.7% vs. 23.4% QoQ.

**Management Commentary**

- On SME asset quality front, management highlighted that condition in Tamil Nadu is not that bad. In addition, there is no spike in SMA book but it is closely watched.
- NIM declined due to reduction in CD ratio and decrease in yield on advances. Management is trying its best to increase the CD ratio.
- Management expects to maintain RoA/RoE at current level.
- Yield on advances declined due to high competition in the market.
- Management is trying to more focus on gold loan segment.
- Increase in employee cost was because of provision for leave encashment and other actuarial calculation.
- Management targets Rs 150 cr per quarter recovery from NPA account.

**Valuation**

CUB's Q2FY20 performance was operationally muted. However, the high granularity in its loan book and management's prudent lending practices provides comfort especially in the current scenario. We cut our loan growth estimate to 13%/15% for FY20/21E from 17% earlier. We expect CUB to report RoAs of ~1.5% and RoE of ~14% in FY21E. We maintain our 'Hold' rating on the stock with a revised target price of Rs 229 based P/ABV(x) of 2.9 (x) to its FY 21E ABV, giving a potential upside of 8%.

**Q2FY20 Financial Snapshot:**

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q2 FY20	Q2 FY19	YoY	Q1FY20	QoQ
Interest earned	1037	926	11.9%	1029	0.7%
Interest expended	625	528	18.3%	612	2.1%
<b>NII</b>	<b>412</b>	<b>398</b>	<b>3.4%</b>	<b>417</b>	<b>-1.3%</b>
NIM	3.91	4.28		4.11	
Non-interest income	195	119	64.5%	163	19.4%
Operating Expenses	260	221	17.9%	229	13.7%
Employee cost	113.1	93.0	21.6%	100.4	12.7%
Cost-Income ratio	42.9	42.7		39.4	
<b>Operating Profit</b>	<b>346</b>	<b>296</b>	<b>17.1%</b>	<b>351</b>	<b>-1.4%</b>
Provisions	108	68	58.8%	116	-6.7%
PBT	239	228	4.6%	236	1.2%
Tax provisions	45	60	-25.0%	50	-10.0%
Effective tax rate	19%	26%		21%	
<b>Net profit</b>	<b>194</b>	<b>168</b>	<b>15.2%</b>	<b>186</b>	<b>4.2%</b>
Asset Quality (%)					
Particulars	Q2 FY20	Q2 FY19	YoY	Q1FY20	QoQ
GNPA	3.41	2.85		3.34	0.07
NNPA	1.90	1.69		1.89	
PCR	65.0	65.0		65.0	
Quarterly Performance					
Particulars	Q2 FY20	Q2 FY19	YoY	Q1FY20	QoQ
Advances	33279	29785	12%	32230	3%
Deposits	40451	34534	17%	39077	4%
CASA	9988	8164	22.3%	9161	9.0%
CASA %	24.7	23.6		23.4	
C-D ratio %	82.3	86.2		82.5	
Capital Adequacy %	15.5	15.1		15.7	

Loan Book Break-Up								
Particulars	Q2 FY20	in %	Q2 FY19	in %	Q1 FY20	in %	YoY	QoQ
Agriculture	4684	14%	4428	15%	4759	15%	6%	-2%
MSME	11078	33%	10056	34%	10688	33%	10%	4%
Large Industries	2186	7%	1947	7%	2154	7%	12%	1%
Retail Traders	1066	3%	1125	4%	1039	3%	-5%	3%
Wholesale Traders	4572	14%	4050	14%	4372	14%	13%	5%
Commercial Real Estate	2340	7%	1459	5%	2006	6%	60%	17%
Jewel Loan Non Agriculture	405	1%	356	1%	372	1%	14%	9%
Housing Loans	2196	7%	1973	7%	2115	7%	11%	4%
Other Personal Loans	1090	3%	1310	4%	1144	4%	-17%	-5%
Loans Collateralized By Deposits	551	2%	496	2%	524	2%	11%	5%
Infrastructure	359	1%	194	1%	354	1%	85%	2%
NBFCs	381	1%	243	1%	314	1%	57%	21%
Others	2371	7%	2149	7%	2388	7%	10%	-1%
<b>Total</b>	<b>33279</b>	<b>100%</b>	<b>29785</b>	<b>100%</b>	<b>32230</b>	<b>100%</b>	<b>12%</b>	<b>3%</b>

Income Statement			
(Rs Cr)	2019	2020E	2021E
Interest Earned	3767	4574	5168
Interest Expended	2156	2763	3158
<b>Net Interest Income</b>	1611	1811	2011
Other Income	514	608	690
Fee Income	294	338	388
Treasury Income	87	155	187
<b>Operating Income</b>	2126	2419	2701
Operating Expenses	886	1030	1127
Employee Expenses	364	435	449
<b>Profit before provision &amp; tax</b>	1240	1389	1574
Provisions and Contingencies	315	424	484
<b>Profit Before Tax</b>	925	965	1091
Provision for tax	242	203	229
Exp. Items	0	0	0
<b>Profit After Tax</b>	683	763	862

Balance Sheet			
(Rs Cr)	2019	2020E	2021E
<b>Sources of funds</b>			
Share Capital	73	73	73
Total Reserves	4767	5530	6392
<b>Shareholder's Fund</b>	4841	5604	6465
Deposits	38448	43677	50040
Borrowings	481	683	970
Other Liabilities & provisions	1489	1718	2039
<b>Total Liabilities</b>	<b>45259</b>	<b>51681</b>	<b>59515</b>
<b>Application of Funds</b>			
Cash & Bank	2963	3220	3592
Investments	7712	9502	11272
Advances	32673	36921	42459
Fixed Assets	250	263	276
Other Assets	1660	1776	1917
<b>Total Assets</b>	<b>45259</b>	<b>51681</b>	<b>59515</b>

Ratios %			
	2019	2020E	2021E
<b>Asset Quality</b>			
Gross NPA	2.96	3.13	3.11
Net NPA	1.81	1.76	1.54
PCR	63.0	64.0	64.0
<b>Growth</b>			
Advances Growth	17.3	13.0	15.0
Deposit growth	17.0	13.6	14.6
Net Profit Growth	15.3	11.7	13.0
<b>Liquidity</b>			
C-D Ratio	85.0	84.5	84.8
CASA	25.2	26.3	27.9
Capital Adequacy	16.1	15.9	16.0
<b>Efficiency</b>			
Cost Income Ratio	41.7	42.6	41.7
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	6.6
Cost of Deposits	5.9	6.6	6.6
NIM	3.9	3.9	3.8
Interest Spread	4.6	4.9	4.7
<b>Profitability</b>			
ROE	15.2	14.6	14.3
Earnings Per Share (Rs)	9.3	10.4	11.7
Dividend Per Share (Rs)	0.3	0.4	0.4
Adjusted Book Value (Rs)	57.9	67.4	79.1
<b>Valuation</b>			
P / EPS (x)	22.9	20.5	18.2
P / ABV (x)	3.7	3.2	2.7

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park,  
Building No. 10, 1<sup>st</sup> Floor,  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E).  
Mumbai – 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

**Registered Office**

Arihant House  
E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

**Stock Rating Scale**

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

<b>Research Analyst Registration No.</b>	<b>Contact</b>	<b>Website</b>	<b>Email Id</b>
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880