

**CMP : Rs 191**

**Rating : HOLD**

**Target : Rs 205**

**STOCK INFO**

INDEX	
BSE	532210
NSE	CUB
Bloomberg	CUBK IN
Reuters	CTBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs cr.)	73
Mkt Cap (Rs cr.)	13,979
52w H/L (Rs)	207/134
Monthly Avg Vol (BSE+NSE)	732,480

**SHAREHOLDING PATTERN**

	%
<i>(as on December, 2018)</i>	
Promoters	-
FII	25.6
DII	25.2
Public & Other	49.2

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
City Union Bank	13.2	12.5	21.8
SENSEX	4.7	-4.9	-1.7

Source: ACE Equity, Arihant Research

**City Union Bank v/s SENSEX**



Source: ACE Equity, Arihant Research

**City Union Bank reported mixed set of numbers in Q3FY19 supported by NII growth. Profit for the quarter grew by 15% at Rs. 178 cr vs Rs. 155 cr in corresponding quarter of previous fiscal year. Loan growth of the bank remained steady at 17% leading to 15% jump in NII at Rs. 418 cr resulting to stable margins offset by decline in cost of deposits despite a decline in yield on advances. Operating profit for the quarter grew by 3.5% YoY at Rs. 307 cr. Other income for the quarter de-grew by 1.5% at Rs. 120 cr due to decline in bank's treasury book. Asset quality of the bank deteriorated marginally with a 6 bps rise in its GNPA's at 2.91% vs 2.85% on sequential basis. Management has given steady outlook going forward and retained credit growth guidance of 18-20% which we have factored in our estimates. We remain positive on CUB's growth and believe it will sustain their performance. Maintain HOLD rating with TP of Rs. 205.**

**Business Growth**

Total Advances for the bank stood at Rs 30,637 cr up by 17% YoY and 3% QoQ. Deposits for the quarter grew by 13% YoY to Rs 35,504 cr YoY. CASA ratio stood at 23.86% to total deposits. CASA deposits increased by 21% from Rs. 6,989 cr to Rs. 8,470 cr. C-D ratio stood flat QoQ basis at 86%.

**Asset Quality**

Underlying asset quality of the bank remained under control despite a slippage of Rs. 85 cr on account of one paper account which declared as NPA. Slippage ratio guidance for the year FY19 maintained at 1.8-2.0%. Management highlighted that there is no lumpy accounts in its book, which will be under stress. Gross NPAs came at 2.9% vs. 3.3% YoY and 2.85% on sequential basis. Net NPAs stood flat YoY at 1.74% and 1.69% sequentially. PCR stood at 65% flat YoY and QoQ. Management hopes to maintain a PCR at current level range going forward. There has been no sale to ARC on SR basis since FY16.

**Margins**

Net interest margins for the bank stood at 4.41% flat YoY while on QoQ basis it has improved by 9bps offset by decline in cost of deposit by 12 bps to 6.17%. Yield on advances declined significantly by 50 bps QoQ at 10.96% largely due to higher competition in the market. Cost to income ratio of the bank stood at 43% vs 39.1% YoY. Capital adequacy for the quarter stood at 15.11% of which Tier-1 stood at 14.71%.

The branches for the bank stood at 616 while ATM's stood at 1656 and number of employees stood at 5,443.

**Valuation**

Sustainable margins, high CRAR ratio (14.79%) and decline in cost deposit are the key positives for the bank, however slight pressure on yields and deterioration in asset quality are concerns. We have revised our credit growth estimate for FY20 to 18%. We have valued the stock at its FY 20E P/ABV of 3 (x) and arrived at a fair value of Rs 205 per share, giving an upside of 8%. At CMP of Rs 191 the stock is trading at P/ABV of 2.8 (x) to its FY 20E ABV. We have "HOLD" rating on the stock.

**Q3FY19 Quarterly Snapshot:**

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q3 FY19	Q3 FY18	YoY	Q2 FY19	QoQ
Interest earned	967	865	11.7%	926	4.3%
Interest expended	549	500		528	
NII	418	365	14.5%	398	5.0%
NIM	4.41	4.45		4.3	
Non-interest income	120	122	-1.5%	119	1.1%
Operating Expenses	231	190	21.4%	221	4.7%
Employee cost	92.7	79.9	16.1%	93.0	-0.3%
Cost-Income ratio	43.0	39.1		42.7	
Operating Profit	307	296	3.5%	296	3.7%
Provisions	79	86	-8.1%	68	15.9%
PBT	228	211	8.2%	228	0.1%
Tax provisions	50	56	-10.7%	60	-16.7%
Effective tax rate	22%	27%		26%	
Net profit	178	155	15.1%	168	6.0%
EPS	2.4	2.3	4.4%	2.3	

Asset Quality (%)					
Particulars	Q3 FY19	Q3 FY18	YoY	Q2 FY19	QoQ
GNPA	2.9	3.3	39 bps	2.9	6 bps
NNPA	1.7	1.7	0 bps	1.7	5 bps
PCR	65.0	65.0		65.0	

Quarterly Performance					
Particulars	Q3 FY19	Q3 FY18	YoY	Q2 FY19	QoQ
Advances	30637	26089	17%	29785	3%
Deposits	35504	31339	13%	34534	3%
CASA	8470	6989	21.2%	8164	3.7%
CASA %	23.9	22.3		23.6	
C-D ratio %	86.3	83.2		86.2	
Capital Adequacy %	14.8	14.9		15.1	

Income Statement			
(Rs Cr)	2018	2019E	2020E
Interest Earned	3402	3945	4557
Interest Expended	1972	2308	2561
<b>Net Interest Income</b>	<b>1430</b>	<b>1637</b>	<b>1996</b>
Other Income	532	565	602
Fee Income	256	292	336
Treasury Income	168	163	152
<b>Operating Income</b>	<b>1962</b>	<b>2202</b>	<b>2599</b>
Operating Expenses	755	903	1016
Employee Expenses	316	394	435
<b>Profit before provision &amp; tax</b>	<b>1208</b>	<b>1299</b>	<b>1583</b>
Provisions and Contingencies	418	427	469
<b>Profit Before Tax</b>	<b>790</b>	<b>872</b>	<b>1114</b>
Provision for tax	198	214	278
Exp. Items	0	0	0
<b>Profit After Tax</b>	<b>592</b>	<b>659</b>	<b>836</b>

Balance Sheet			
(Rs Cr)	2018	2019E	2020E
<b>Sources of funds</b>			
Share Capital	66	73	73
Total Reserves	4097	4755	5591
<b>Shareholder's Fund</b>	<b>4163</b>	<b>4828</b>	<b>5664</b>
Deposits	32853	36890	40421
Borrowings	1736	2739	4229
Other Liabilities & provisions	1186	1497	1819
<b>Total Liabilities</b>	<b>39937</b>	<b>45954</b>	<b>52133</b>
<b>Application of Funds</b>			
Cash & Bank	2636	2631	2859
Investments	7879	8466	8381
Advances	27853	33038	38985
Fixed Assets	223	232	241
Other Assets	1346	1587	1666
<b>Total Assets</b>	<b>39937</b>	<b>45954</b>	<b>52133</b>

Ratios %			
	2018	2019E	2020E
<b>Asset Quality</b>			
Gross NPA	3.0	2.7	3.0
Net NPA	1.7	1.9	1.7
PCR	64.0	64.0	64.0
<b>Growth</b>			
Advances Growth	16.9	18.6	18.0
Deposit growth	9.1	12.3	9.6
Net Profit Growth	17.8	11.2	26.9
<b>Liquidity</b>			
C-D Ratio	84.8	89.6	96.4
CASA	24.2	24.4	24.8
Capital Adequacy	16.2	15.8	15.2
<b>Efficiency</b>			
Cost Income Ratio	38.5	41.0	39.1
Operating Costs to Assets	1.9	2.0	1.9

Ratios %			
	2018	2019E	2020E
<b>Spread Analysis</b>			
Yield on Advances	11.0	10.9	11.1
Yield on Investments	7.0	7.0	6.0
Cost of Funds	6.0	6.2	6.1
Cost of Deposits	6.1	6.5	6.5
NIM	4.0	4.0	4.2
Interest Spread	4.9	4.7	5.0
<b>Profitability</b>			
ROE	15.3	14.6	15.9
Earnings Per Share (Rs)	8.9	9.0	11.4
Dividend Per Share (Rs)	0.3	0.3	0.4
Adjusted Book Value (Rs)	53.2	57.6	68.5
<b>Valuation</b>			
P / EPS (x)	21.4	21.2	16.7
P / ABV (x)	3.6	3.3	2.8

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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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