

**CMP: Rs 205**

**Rating: HOLD**

**Target Price: Rs 223**

**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.)	14,587
52w H/L (Rs)	208/157
Weekly Avg Vol (BSE+NSE)	495,620

**Shareholding Pattern**

	%
<b>(As on March, 2019)</b>	
Promoters	Nil
DII	26.7
FII	24.4
Public & Others	48.9

Source: NSE, Arihant Research

**Stock Performance (%)**

	3m	6m	12m
City Union Bank	10.1	21.0	16.0
SENSEX	6.9	6.0	7.9

Source: ACE Equity, Arihant Research

**City Union Bank v/s Sensex**



Source: ACE Equity, Arihant Research

**City Union Bank (CUB) reported stable set of numbers in Q4FY19 supported by loan growth of 17% YoY. Profit for the quarter grew by 15% to Rs 175 cr vs Rs 152 cr in corresponding quarter of previous fiscal year. Credit growth of the bank remained steady at 17%, leading to 14% jump in NII at Rs 421 cr and stable NIM at 4.4%. Underlying asset quality of the bank remains under control with GNPA's at 2.95% while NNPA's stood at 1.81%. Management has given steady outlook going forward and guided for 18-20% advances growth. We remain positive on CUB's growth outlook and believe it will give sustainable performance. Maintain HOLD rating with revised TP of Rs 223.**

**Business Growth** Total Advances of the bank grew by 17% YoY/8% QoQ to Rs 33065 cr, driven by retail and corporate book. Management guided for 18-20% loan growth without change in specific loan segment. Deposits for the quarter grew by 17% YoY to Rs 38,448 cr YoY led by strong traction on CASA front. CASA growth remained strong at 25% YoY led by strong savings deposits growth (25% YoY). C-D ratio stood flat on YoY basis at 86%.

**Slight hiccup on asset quality, but well under control**

Slippages were elevated at Rs 204 cr, leading to marginal 4bps rise in GNPA's at 2.95%. Of the total slippages of Rs 204 cr, all accounts were below ~Rs 20 cr size. One educational institution account worth Rs 17cr, slipped into NPA during the quarter. The bank does not have any exposure to IL&FS and any other stressed groups like ADAG, Jet, Essel, Indiabulls, DHFL etc. Slippage ratio guidance for the year FY20 maintained at 1.8-2.0%.

**Management Commentary:**

- Management expects asset quality to improve by H1FY20 and guided for slippage ratio in the range of 1.8-2.0%. Slippages in Q4FY19 included 2 textile companies and one educational institution account. The bank stated it does not have any exposure to large builders.
- More than 75% of the agri portfolio is collateralized by gold. Agri exposure is mainly south-based.
- One education account worth Rs 17 cr, slipped into NPA during the quarter. In terms of exposure to education loans, the bank has exposure worth Rs 175 cr of which Rs 50-60 cr is already NPA.
- Management has guided for 18-20% credit growth in FY20, RoA of 1.5-1.6% and RoE of 15%. The cost to income ratio would be in the range of ~42%.
- Bank continues to maintain earlier stance that NIM will see some compression.
- Attrition rate in the bank is 7-10% and mainly at entry level positions. There has been no resignation from senior management level. Employee count as on FY19 is 5518.

**Valuation**

**We continue to maintain our positive stance on CUB, due to its sustainable performance. Our positive view on CUB is based on higher margins (best in banking sector), consistent superior return ratios (RoA: 1.64%, RoE: 15%) and strong CAR. We maintain our 'Hold' rating on the stock with a revised target price of Rs 223 based on P/ABV(x) of 2.8 (x) to its FY 21E ABV.**

**Q4FY19 Financial Snapshot:**

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q4 FY19	Q4 FY18	YoY	Q3 FY19	QoQ
Interest earned	985	871	13.1%	967	1.9%
Interest expended	564	503	12.2%	549	2.8%
<b>NII</b>	<b>421</b>	<b>368</b>	<b>14.3%</b>	<b>418</b>	<b>0.6%</b>
NIM	4.40	4.36		4.41	
Non-interest income	147	120	22.6%	120	22.6%
Operating Expenses	230	193	18.7%	231	-0.6%
Employee cost	91.4	76.8	19.1%	92.7	-1.5%
Cost-Income ratio	40.5	38.5		43.0	
<b>Operating Profit</b>	<b>338</b>	<b>294</b>	<b>14.8%</b>	<b>307</b>	<b>10.1%</b>
Provisions	91	86	5.3%	79	15.1%
PBT	247	208	18.7%	228	8.3%
Tax provisions	72	56	28.6%	50	44.0%
Effective tax rate	29%	27%		22%	
<b>Net profit</b>	<b>175</b>	<b>152</b>	<b>15.1%</b>	<b>178</b>	<b>-1.7%</b>
EPS	2.4	2.3	4.2%	2.4	

**Asset Quality (%)**

Particulars	Q4 FY19	Q4 FY18	YoY	Q3 FY19	QoQ
GNPA	2.95	3.03		2.91	
NNPA	1.81	1.70		1.74	
PCR	63.0	64.0		65.0	

**Quarterly Performance**

Particulars	Q4 FY19	Q4 FY18	YoY	Q3 FY19	QoQ
Advances	33065	28238	17%	30637	8%
Deposits	38448	32853	17%	35504	8%
CASA	9698	7957	21.9%	8470	14.5%
CASA %	25.2	24.2		23.9	
C-D ratio %	86.0	86.0		86.3	
Capital Adequacy %	15.6	16.2		14.8	

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)	22.1	20.4	16.6
P / ABV (x)	3.5	3.1	2.6

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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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