

CMP: INR 167

Rating: Hold

Target Price: INR 186

Stock Info

BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	74
Mkt Cap (INR Cr)	12,339
52w H/L (INR)	224/ 110
Avg Yearly Vol (in 000')	2,205

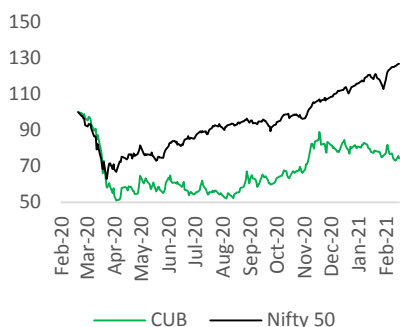
Shareholding Pattern %

(As on December, 2020)

Promoters	Nil
FII	18.65
DII	37.58
Public & Others	43.77

Stock Performance (%)	3m	6m	12m
CUB	-13.7	33.9	-25.1
Nifty 50	18.0	32.0	24.2

CUB Vs Nifty



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City Union Bank (CUB) reported mixed performance during Q3FY21 with strong operating profit growth and weakness on asset quality. NII for the quarter grew by 14.5% YoY with strong operating profit growth of 49% YoY. Provision remained higher at INR 219 cr as bank has created further additional Covid provision of INR 125 cr. Total Covid provision as on 9MFY21 stood at INR 465 cr (~1.3% of advances). The bank has reported 12% YoY decline in net profit at INR 170 cr due to higher provision. Asset quality trend of the bank was weaker than peers as proforma slippages of the bank stood at INR 1,150 cr with overall restructuring being guided at 5% (~2.2% restructured as on Dec'20).

Strong Operating performance

NII growth of 15% YoY was driven by NIM expansion of 20bps YoY/4bps QoQ at 4.2% and advances growth of +7.9% YoY and +3% QoQ. Yield on advances declined by 86bps YoY and 34bps QoQ while CoF was down 95bps YoY and 33bps QoQ. Excluding interest reversals, NIM would have been at 4.42%. Operating profit growth was higher at 49% YoY to INR 458 cr supported by treasury income. Treasury income for the quarter stood at INR 119 cr vs. INR 42 cr YoY. Cost to income ratio of the bank came down to 36.2% from 40.3% in previous quarter (largely due to high other income).

Loan growth improved

CUB has reported loan book growth of 7.9% YoY (as compared to 6.5% in Q2FY21), led by gold loan and MSME (driven by ECLGS) portfolio. The bank has sanctioned around INR 2,000 cr under the ECLGS to 10K borrowers and disbursed around INR 1,911 cr to around 9K borrowers. Agri-loan for the quarter de-grew by 10% YoY mainly due to shift in gold loan borrowers from agri gold loans to personal gold loan. Management has guided for mid to high single digit growth in advances in FY21E and a low double-digit growth rate for FY22E. Deposit growth of the bank has picked up to 9% YoY (as against 2.4% YoY in Q2FY21). CASA growth was better at ~28% YoY, driven by ~34% growth in savings account. CASA ratio of the bank improved by ~180 bps QoQ at ~27.5%.

Asset quality update; 5-6% of the book expected to be restructured in FY21

Due to SC interim order on asset classification, reported NPA/NNPA of the bank declined by 50bps/34bps respectively to 2.9%/1.5% on a QoQ basis. Collection efficiency of the bank decreased to 89% in Dec'20 vs. 95% in Sept'20. Proforma slippages stood at INR 1,150 cr. Proforma net NPA of the bank would have been higher at ~3.4%. As of 3QFY21, total restructured advances stood at INR 807 cr (~2.2% of net advances). Total restructuring is expected to be around 5%-6%. Majority of expected restructuring would be from MSME. Bank expects slippages ratio to be in the range of 3-3.5% in FY21E.

Valuation & View: Operating performance of the bank was healthy but profit growth was impacted due to higher credit cost given the near term stress in the business. With the restructuring book expectation of 5-6% of the book and slippage guidance of 3-3.5%, the asset quality of the bank would be the key monitorable going ahead. Near term outlook will remain challenging primarily on asset quality front. We maintain our Hold rating on the stock with a revised target price of INR 186 (INR 169 earlier), valuing the bank at P/adj. BV of 2x FY23E ABV.

(INR Cr)	FY20A	FY21E	FY22E	FY23E
NII	1,675	1,953	2,042	2,296
PPOP	1,341	1,596	1,648	1,883
PAT	476	581	805	1,006
ABVPS (INR / Share)	61.3	66.3	78.0	93.0
NIM (%)	3.7	3.9	3.7	3.7
RoA (%)	1.5	1.6	1.6	1.0
RoE (%)	15.2	15.3	15.2	9.4
P / ABV (x)	2.7	2.5	2.1	1.8

Quarterly Result Snapshot					
Particulars (INR Crore)	Q3 FY21	Q3 FY20	YoY	Q2FY21	QoQ
Interest earned	1048	1061	-1.2%	1061	-1.2%
Interest expended	559	634	-11.8%	586	-4.6%
NII	489	427	14.5%	475	2.9%
NIM (%)	4.16	3.96	20bps	4.12	4bps
Non-interest income	230	142	61.4%	169	35.7%
Operating Expenses	260	261	-0.3%	260	0.2%
Employee cost	120.2	113.4	6.0%	119.9	0.3%
Cost-Income ratio (%)	36.2	45.9	-963bps	40.3	-409bps
Operating Profit	458	308	48.6%	385	19.2%
Provisions	219	81	169.8%	177	23.4%
PBT	240	227	5.5%	208	NA
Tax provisions	70	35	100.0%	50	NA
Effective tax rate	29%	15%	1379bps	24%	510bps
Net profit	170	192	-11.7%	158	7.8%
EPS	2.3	2.6	-13.0%	2.1	7.5%

Asset Quality (%)					
Particulars	Q3 FY21	Q3 FY20	YoY	Q2FY21	QoQ
GNPA	2.94	3.50	-56bps	3.44	-50bps
NNPA	1.47	1.95	-48bps	1.81	-34bps
PCR	73.0	65.0	800bps	70.0	300bps

Quarterly Performance					
Particulars	Q3 FY21	Q3 FY20	YoY	Q2FY21	QoQ
Advances	36504	33828	7.9%	35437	3.0%
Deposits	43288	39812	8.7%	41421	4.5%
CASA	11899	9294	28.0%	10645	11.8%
CASA %	27.5	23.3	414bps	25.7	179bps
C-D ratio %	84.3	85.0	-64bps	85.6	-123bps
Capital Adequacy %	17.4	15.5	190bps	17.4	3bps

Key Financials

Income Statement					
Income Statement (INR Cr)	2019	2020	2021E	2022E	2023E
Interest Earned	3767	4169	4441	4764	5294
Interest Expended	2156	2493	2488	2722	2998
Net Interest Income	1611	1675	1953	2042	2296
Other Income	514	680	726	734	808
Fee Income	294	308	354	396	444
Treasury Income	87	244	258	222	249
Operating Income	2126	2355	2680	2775	3104
Operating Expenses	886	1014	1084	1128	1221
Employee Expenses	364	421	479	462	476
Profit before provision & tax	1240	1341	1596	1648	1883
Provisions and Contingencies	315	755	819	572	538
Profit Before Tax	925	586	777	1076	1344
Provision for tax	242	110	195	271	338
Exp. Items	0	0	0	0	0
Profit After Tax	683	476	581	805	1006

Balance Sheet					
Balance Sheet (INR Cr)	2019	2020	2021E	2022E	2023E
Sources of funds					
Share Capital	73	74	74	74	74
Total Reserves	4767	5222	5804	6609	7615
Shareholder's Fund	4841	5296	5877	6683	7689
Deposits	38448	40832	44231	48486	53504
Borrowings	481	2032	2886	4098	5328
Other Liabilities & provisions	1489	1573	2082	1832	1889
Total Liabilities	45259	49734	55076	61099	68410
Application of Funds					
Cash & Bank	2963	4722	5324	5693	6109
Investments	7712	9117	10692	12110	13442
Advances	32673	33927	36642	40306	45143
Fixed Assets	250	245	265	299	353
Other Assets	1660	1722	2153	2691	3364
Total Assets	45259	49734	55076	61099	68410

Ratios %					
Operational Ratios (%)	2019	2020	2021E	2022E	2023E
Asset Quality					
Gross NPA	2.96	4.09	5.72	5.48	5.18
Net NPA	1.81	2.29	2.71	2.31	1.84
PCR	63.0	64.0	64.0	64.0	64.0
Growth					
Advances Growth	17.3	3.8	8.0	10.0	12.0
Deposit growth	17.0	6.2	8.3	9.6	10.3
Net Profit Growth	15.3	-30.3	22.1	38.6	24.9
Liquidity					
C-D Ratio	85.0	83.1	82.8	83.1	84.4
CASA	25.2	25.0	24.5	24.6	24.8
Capital Adequacy	15.6	16.8	16.8	17.4	17.9
Efficiency					
Cost Income Ratio	41.7	43.0	40.4	40.6	39.3
Operating Costs to Assets	2.0	2.0	2.0	1.8	1.8

Ratios %					
Valuation Ratios (%)	2019	2020	2021E	2022E	2023E
Spread Analysis					
Yield on Advances	10.5	10.5	10.6	10.6	10.6
Yield on Investments	7.1	7.2	6.5	6.5	6.5
Cost of Funds	5.9	6.1	5.5	5.5	5.4
Cost of Deposits	5.9	6.1	5.7	5.8	5.8
NIM	3.9	3.7	3.9	3.7	3.7
Interest Spread	4.6	4.4	5.1	5.1	5.2
Profitability					
ROE	15.2	9.4	10.4	12.8	14.0
ROA	1.6	1.0	1.1	1.4	1.6
Earnings Per Share (INR)	9.3	6.5	7.9	10.9	13.6
Adjusted Book Value (INR)	57.9	61.3	66.3	78.0	93.0
Valuation					
P / EPS (x)	18.0	25.9	21.2	15.3	12.2
P / ABV (x)	2.9	2.7	2.5	2.1	1.8

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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