

CMP: Rs 121

Rating: Hold

Target Price: Rs 133

Stock Info

BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs Cr)	74
Mkt Cap (Rs Cr)	8,940
52w H/L (Rs)	249/ 110
Avg Yearly Vol (in 000')	4,383

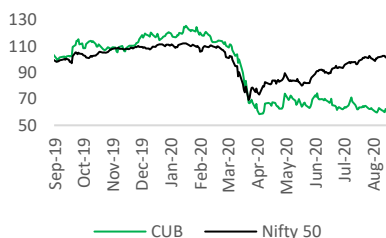
Shareholding Pattern %

(As on March, 2020)

Promoters	Nil
FII	21.65
DII	30.10
Public & Others	48.25

Stock Performance (%)	3m	6m	12m
CUB	-2.8	-44.9	-36.4
Nifty 50	26.7	-7.2	1.4

CUB Vs Nifty



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City Union Bank (CUB) reported stable operating performance during Q1FY21. NII for the quarter grew by 5% YoY to Rs 437 cr. Operating profit of the bank grew merely by 1% YoY to Rs 356 cr. Provision remained higher due to Covid related contingent provision. CUB has made Covid provision of Rs 100 cr during the quarter, taking the total at Rs 225 cr (Rs 125 cr in Q4FY20). The bank has reported 17% decline in net profit at Rs 154 cr. On a sequential basis, bank has returned back to profitability as it had reported Rs 95 cr loss in Q4FY20, was supported by better margins, strong treasury gain and cost control. Asset quality of the bank improved as slippages were negligible at Rs 3.4 cr, largely benefitting from moratorium. 12.5% of the bank's book is under moratorium (not paid any single EMI).

Operationally Stable Performance

The bank has reported 17% YoY decline in profit but operating performance of the bank was stable despite additional contingent provision. NII growth of 5% YoY/4% QoQ, was supported by 7bps QoQ improvement in margins at 3.98%. Non interest income declined by 2% YoY, primarily due to lower core fees income but offset by higher treasury gain. Treasury income for the quarter came in at Rs 109 cr vs. Rs 79 cr QoQ. Cost to income ratio of the bank came down to 40.4% from 44% in previous quarter.

Loan growth remained weak

Loan book growth of the bank was tepid at 7% YoY and flat QoQ, led by muted growth in SME segment at 3% YoY (32% of the book). Agriculture advances growth remained healthy at 14% YoY and CRE portfolio registered strong growth of 41% YoY. Management indicated that loan growth in FY21 to remain lower as focus of the bank stays on strengthening the balance sheet. Under MSME credit guarantee scheme, bank has disbursed Rs 1218 cr and sanctioned Rs 1583 cr, with further disbursement of Rs 1632 cr. Deposit growth of the bank fell to 5% YoY vs. 6% in previous quarter. This was led by moderation in term deposit at 3% YoY, was impacted due to rate cut. CASA ratio decreased by 36bps QoQ to 24.6%.

Collection efficiency improves; GNPA declined due to moratorium benefit

Collection efficiency has seen improvement as accounts with an exposure of 70% have paid full installments (till June 20) and 77% paid two or more EMIs. 12% of loan by value is under moratorium. GNPA/NNPA ratio declined by 19bps/18bps QOQ at 3.9%/2.1%. Slippages were negligible during the quarter. Management expects 3-3.5% of slippage ratio for FY21E with restructuring required for 5-6%, given the challenging environment.

Valuation & View

In line with management guidance, we factor in higher slippage ratio resulting in GNPA ratio at 5.4% (5.2% earlier) and EPS cut of 9% in FY21E. However, Bank's better underwriting practices, conservative loan approach and Covid provision buffer are key positives. We are expecting ROE of 7% and ROA of 0.8% for FY21E (lower than historical levels). We retain our Hold rating on the stock with a revised target of Rs 133 (Rs 134 earlier), valuing the bank at P/adj. BV of 1.8x (unchanged) to its FY22E ABV.

(Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
NII	1,430	1,611	1,675	1,648	1,724
PPOP	1,208	1,240	1,341	1,183	1,228
PAT	592	683	476	393	593
EPS (INR / Share)	1.6	1.6	1.0	0.8	1.1
ABVPS (INR / Share)	53.2	57.9	61.3	64.6	73.8
NIM (%)	4.0	3.9	3.7	3.3	3.2
Advances Growth YoY (%)	16.9%	17.3%	3.8%	4.0%	10.0%
Deposits Growth	9.1%	17.0%	6.2%	5.0%	10.0%
P / ABV (x)	3.7	2.1	2.0	1.9	1.6

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q1 FY21	Q1 FY20	YoY	Q4FY20	QoQ
Interest earned	1049	1029	2.0%	1042	0.7%
Interest expended	612	612	0.0%	622	-1.6%
NII	437	417	4.8%	419	4.2%
NIM (%)	3.98	4.11	-13bps	3.91	7bps
Non-interest income	161	163	-1.7%	179	-10.4%
Operating Expenses	242	229	5.6%	264	-8.4%
Employee cost	116.4	100.4	16.0%	93.8	24.1%
Cost-Income ratio (%)	40.4	39.4	99bps	44.0	-362bps
Operating Profit	356	351	1.3%	335	6.3%
Provisions	157	116	35.6%	450	-65.1%
PBT	199	236	-15.5%	-115	NA
Tax provisions	45	50	-10.0%	-20	NA
Effective tax rate	23%	21%		17%	
Net profit	154	186	-17.0%	-95	NA
EPS	2.1	2.5	-17.4%	-1.3	NA

Asset Quality (%)					
Particulars	Q1 FY21	Q1 FY20	YoY	Q4FY20	QoQ
GNPA	3.90	3.34	56bps	4.09	-19bps
NNPA	2.11	1.89	22bps	2.29	-18bps
PCR	68.0	65.0	300bps	65.0	300bps

Quarterly Performance					
Particulars	Q1 FY21	Q1 FY20	YoY	Q4FY20	QoQ
Advances	34536	32230	7.2%	34576	-0.1%
Deposits	41026	39077	5.0%	40833	0.5%
CASA	10098	9161	10.2%	10197	-1.0%
CASA %	24.6	23.4	117bps	25.0	-36bps
C-D ratio %	84.2	82.5	170bps	84.7	-50bps
Capital Adequacy %	16.8	15.7	109bps	16.8	1bps

Loan Book Break-Up								
Particulars (in Cr.)	Q1FY21	in %	Q1FY20	in %	Q4FY20	in %	YoY	QoQ
Agriculture	5,433	16%	4,759	15%	5,464	16%	14%	-1%
MSME	11,030	32%	10,688	33%	10,753	31%	3%	3%
Large Industries	2,178	6%	2,154	7%	2,139	6%	1%	2%
Retail Traders	780	2%	1,039	3%	943	3%	-25%	-17%
Wholesale Traders	4,504	13%	4,372	14%	4,807	14%	3%	-6%
Commercial Real Estate	2,821	8%	2,006	6%	2,770	8%	41%	2%
Jewel Loan Non Agriculture	821	2%	372	1%	713	2%	121%	15%
Housing Loans	2,286	7%	2,115	7%	2,283	7%	8%	0%
Other Personal Loans	986	3%	1,144	4%	1,018	3%	-14%	-3%
Loans Collateralized By Deposits	517	1%	524	2%	586	2%	-1%	-12%
Infrastructure	369	1%	354	1%	373	1%	4%	-1%
NBFCs	249	1%	314	1%	289	1%	-21%	-14%
Others	2,562	7%	2,388	7%	2,439	7%	7%	5%
Total	34,536	100%	32,230	100%	34,576	100%	7%	0%

Key Financials

Income Statement				
Income Statement (Rs Cr)	2019	2020	2021E	2022E
Interest Earned	3767	4169	4362	4702
Interest Expended	2156	2493	2713	2979
Net Interest Income	1611	1675	1649	1723
Other Income	514	680	660	737
Fee Income	294	308	354	407
Treasury Income	87	244	191	215
Operating Income	2126	2355	2309	2460
Operating Expenses	886	1014	1125	1233
Employee Expenses	364	421	449	462
Profit before provision & tax	1240	1341	1184	1227
Provisions and Contingencies	315	755	685	478
Profit Before Tax	925	586	498	748
Provision for tax	242	110	105	157
Exp. Items	0	0	0	1
Profit After Tax	683	476	394	592

Balance Sheet				
Balance Sheet (Rs Cr)	2019	2020	2021E	2022E
Sources of funds				
Share Capital	73	74	74	74
Total Reserves	4767	5222	5616	6208
Shareholder's Fund	4841	5296	5690	6281
Deposits	38448	40832	42874	47162
Borrowings	481	2032	2886	4098
Other Liabilities & provisions	1489	1573	1981	1433
Total Liabilities	45259	49734	53431	58974
Application of Funds				
Cash & Bank	2963	4722	5256	5627
Investments	7712	9117	10480	11560
Advances	32673	33927	35285	38813
Fixed Assets	250	245	257	283
Other Assets	1660	1722	2153	2691
Total Assets	45259	49734	53431	58974

Ratios %				
Operational Ratios (%)	2019	2020	2021E	2022E
Asset Quality				
Gross NPA	2.96	4.09	5.37	4.87
Net NPA	1.81	2.29	2.63	2.17
PCR	63.0	64.0	64.0	64.0
Growth				
Advances Growth	17.3	3.8	4.0	10.0
Deposit growth	17.0	6.2	5.0	10.0
Net Profit Growth	15.3	-30.3	-17.3	50.3
Liquidity				
C-D Ratio	85.0	83.1	82.3	82.3
CASA	25.2	25.0	25.0	25.0
Capital Adequacy	15.6	16.8	16.9	17.0
Efficiency				
Cost Income Ratio	41.7	43.0	48.7	50.1
Operating Costs to Assets	2.0	2.0	2.1	2.1

Ratios %				
Valuation Ratios (%)	2019	2020	2021E	2022E
Spread Analysis				
Yield on Advances	10.5	10.5	10.6	10.6
Yield on Investments	7.1	7.2	6.5	6.5
Cost of Funds	5.9	6.1	6.1	6.1
Cost of Deposits	5.9	6.1	6.4	6.5
NIM	3.9	3.7	3.3	3.2
Interest Spread	4.6	4.4	4.5	4.5
Profitability				
ROE	15.2	9.4	7.2	9.9
ROA	1.6	1.0	0.8	1.1
Earnings Per Share (Rs)	9.3	6.5	5.3	8.0
Adjusted Book Value (Rs)	57.9	61.3	64.6	73.8
Valuation				
P / EPS (x)	13.0	18.7	22.7	15.1
P / ABV (x)	2.1	2.0	1.9	1.6

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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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