

**CMP: Rs 158**

**Rating: Hold**

**Target Price: Rs 169**

**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)	11,693
52w H/L (Rs)	249/ 110
Avg Yearly Vol (in 000')	1,780

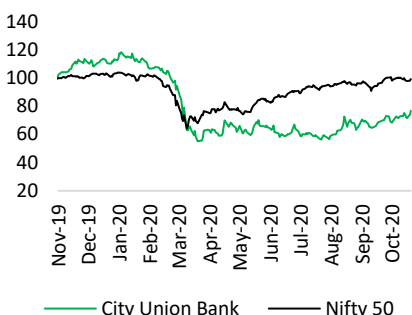
**Shareholding Pattern %**

(As on September, 2020)

Promoters	Nil
FII	18.67
DII	27.52
Public & Others	53.81

Stock Performance (%)	3m	6m	12m
CUB	28.9	18.5	-25.3
Nifty 50	6.2	28.9	-0.3

**CUB Vs Nifty**



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City Union Bank (CUB) reported better than expected operating performance during Q2FY21 led by margin expansion and tight cost control. NII for the quarter grew strongly by 16% YoY with operating profit growth of 11% YoY. Provision remained higher at Rs 177 cr as bank has created additional Covid provision of Rs 115 cr. Total additional provision stood at Rs 317 cr (0.89% of total advances). The bank has reported 19% YoY decline in net profit at Rs 158 cr due to higher provision at 64% YoY. Asset quality of the bank has improved as slippages were NIL, benefitting from SC order. Bank has stated that 4% of the customer by value has not paid any single EMI as of Sept'20 as compared to 12.5% in Q1FY21.

**Operationally Healthy Performance**

The bank has reported 19% YoY decline in profit due to elevated provisioning. NII growth of 16% YoY/9% QoQ was supported by advances growth of 7% YoY and 14bps margin expansion. NIM improvement was led by lower cost of funds (-67 bps YoY/-34 bps QoQ). Management expects margins to be in the range of 3.8-4.2%. Other income was up by 5% QoQ, supported by 43% QoQ increase in fee income as business activity has improved. Operating profit of the bank grew by 11% YoY/8% QoQ to Rs 385 cr. Cost to income ratio of the bank came down to 40.3% from 40.4% in previous quarter. Management has stated that decline in CTI ratio was driven by high treasury income and it is likely to come back to 42-44% levels.

**Loan growth remained low**

Loan book growth of the bank was low at 7% YoY/3% QoQ, led by negative growth in large industries book at 6% YoY and marginal 1% growth in wholesale trader book. SME segment (35% of total loans) grew by 11% YoY after being muted in the last two quarters. The overall Agri loan portfolio de-grew by 15% YoY, mainly due to shift in gold loan borrowers from agri gold loans to personal gold loans. Management has guided for high single digit loan growth for FY21 and indicated that the focus stays on strengthening the balance sheet. Deposit growth of the bank was lower at 2.4% YoY/1% QoQ. This was led by moderation in term deposit at 1% YoY. CASA ratio of the bank increased sharply by 109bps QoQ to 25.7%.

**Collection efficiency improves; GNPA declined due to SC ruling order**

Due to SC interim order on asset classification and higher recovery, GNPA/NNPA of the bank declined by 46bps/30bps respectively to 3.44%/1.81%. PCR of the bank strengthened further to 70% from 68% QoQ. Management has stated that collection efficiency has inched up to 90% as of Sep'20 and 4.09% customers by value has not paid any EMIs since Mar'20 (vs. 12.45% in Jun'20). Bank expects slippages ratio to be in the range of 3-3.5% in FY21E. Total restructuring is expected to be 5-6% of the loan book.

**Valuation & View**

We like CUB's business model as bank has better underwriting practices, conservative growth approach, adequately capitalized (Tier 1 at 16.3%) and sound management team. However, near term outlook will remain challenging primarily on asset quality front. Though we have positive outlook on CUB, higher valuation at 2.1x FY22E P/ABV leaves limited room for upside. We maintain our Hold rating on the stock with a revised target price of Rs 169 (Rs 133 earlier), valuing the bank at P/adj. BV of 2.2x FY22E ABV.

(Rs Cr)	FY19A	FY20A	FY21E	FY22E
NII	1,611	1,675	1,794	2,000
PPOP	1,240	1,341	1,335	1,526
PAT	683	476	487	792
EPS (INR / Share)	1.6	1.0	0.9	1.4
ABVPS (INR / Share)	57.9	61.3	65.7	76.8
NIM (%)	3.9	3.7	3.6	3.7
P / ABV (x)	2.7	2.6	2.4	2.1

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q2 FY21	Q2 FY20	YoY	Q1FY21	QoQ
Interest earned	1061	1037	2.3%	1049	1.1%
Interest expended	586	625	-6.3%	612	-4.3%
<b>NII</b>	<b>475</b>	<b>412</b>	<b>15.5%</b>	<b>437</b>	<b>8.7%</b>
NIM (%)	4.12	3.91	21bps	3.98	14bps
Non-interest income	169	195	-13.2%	161	5.4%
Operating Expenses	260	260	-0.1%	242	7.6%
Employee cost	119.9	113.1	6.0%	116.4	3.0%
Cost-Income ratio (%)	40.3	42.9	-256bps	40.4	-11bps
<b>Operating Profit</b>	<b>385</b>	<b>346</b>	<b>11.0%</b>	<b>356</b>	<b>8.0%</b>
Provisions	177	108	64.0%	157	12.7%
PBT	208	239	-12.9%	199	NA
Tax provisions	50	45	11.1%	45	NA
Effective tax rate	24%	19%	521bps	23%	147bps
<b>Net profit</b>	<b>158</b>	<b>194</b>	<b>-18.5%</b>	<b>154</b>	<b>2.4%</b>
EPS	2.1	2.6	-18.5%	2.1	2.4%

Asset Quality (%)					
Particulars	Q2 FY21	Q2 FY20	YoY	Q1FY21	QoQ
GNPA	3.44	3.41	3bps	3.90	-46bps
NNPA	1.81	1.90	-9bps	2.11	-30bps
PCR	70.0	65.0	500bps	68.0	200bps

Quarterly Performance					
Particulars	Q2 FY21	Q2 FY20	YoY	Q1FY21	QoQ
Advances	35437	33279	6.5%	34536	2.6%
Deposits	41421	40451	2.4%	41026	1.0%
CASA	10645	9988	6.6%	10098	5.4%
CASA %	25.7	24.7	101bps	24.6	109bps
C-D ratio %	85.6	82.3	328bps	84.2	137bps
Capital Adequacy %	17.4	15.5	187bps	16.8	59bps

## Key Financials

Income Statement				
Income Statement (Rs Cr)	2019	2020	2021E	2022E
Interest Earned	3767	4169	4378	4838
Interest Expended	2156	2493	2585	2838
<b>Net Interest Income</b>	<b>1611</b>	<b>1675</b>	<b>1794</b>	<b>2000</b>
Other Income	514	680	654	732
Fee Income	294	308	354	407
Treasury Income	87	244	185	210
<b>Operating Income</b>	<b>2126</b>	<b>2355</b>	<b>2448</b>	<b>2732</b>
Operating Expenses	886	1014	1113	1206
Employee Expenses	364	421	449	462
<b>Profit before provision &amp; tax</b>	<b>1240</b>	<b>1341</b>	<b>1335</b>	<b>1526</b>
Provisions and Contingencies	315	755	719	524
<b>Profit Before Tax</b>	<b>925</b>	<b>586</b>	<b>616</b>	<b>1002</b>
Provision for tax	242	110	129	210
Exp. Items	0	0	0	1
<b>Profit After Tax</b>	<b>683</b>	<b>476</b>	<b>487</b>	<b>792</b>

Balance Sheet				
Balance Sheet (Rs Cr)	2019	2020	2021E	2022E
<b>Sources of funds</b>				
Share Capital	73	74	74	74
Total Reserves	4767	5222	5709	6501
<b>Shareholder's Fund</b>	<b>4841</b>	<b>5296</b>	<b>5783</b>	<b>6575</b>
Deposits	38448	40832	42874	47162
Borrowings	481	2032	2886	4098
Other Liabilities & provisions	1489	1573	1977	2024
<b>Total Liabilities</b>	<b>45259</b>	<b>49734</b>	<b>53520</b>	<b>59858</b>
<b>Application of Funds</b>				
Cash & Bank	2963	4722	5256	5627
Investments	7712	9117	9883	11682
Advances	32673	33927	35963	39559
Fixed Assets	250	245	265	299
Other Assets	1660	1722	2153	2691
<b>Total Assets</b>	<b>45259</b>	<b>49734</b>	<b>53520</b>	<b>59858</b>

Ratios %				
Operational Ratios (%)	2019	2020	2021E	2022E
<b>Asset Quality</b>				
Gross NPA	2.96	4.09	5.40	5.39
Net NPA	1.81	2.29	2.61	2.31
PCR	63.0	64.0	64.0	64.0
<b>Growth</b>				
Advances Growth	17.3	3.8	6.0	10.0
Deposit growth	17.0	6.2	5.0	10.0
Net Profit Growth	15.3	-30.3	2.2	62.8
<b>Liquidity</b>				
C-D Ratio	85.0	83.1	83.9	83.9
CASA	25.2	25.0	25.0	25.0
Capital Adequacy	15.6	16.8	16.9	17.4
<b>Efficiency</b>				
Cost Income Ratio	41.7	43.0	45.5	44.1
Operating Costs to Assets	2.0	2.0	2.1	2.0

Ratios %				
Valuation Ratios (%)	2019	2020	2021E	2022E
<b>Spread Analysis</b>				
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	5.8	5.8
Cost of Deposits	5.9	6.1	6.0	6.2
NIM	3.9	3.7	3.6	3.7
Interest Spread	4.6	4.4	4.8	4.8
<b>Profitability</b>				
ROE	15.2	9.4	8.8	12.8
ROA	1.6	1.0	0.9	1.4
Earnings Per Share (Rs)	9.3	6.5	6.6	10.7
Adjusted Book Value (Rs)	57.9	61.3	65.7	76.8
<b>Valuation</b>				
P / EPS (x)	17.0	24.5	23.9	14.7
P / ABV (x)	2.7	2.6	2.4	2.1

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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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