

**CMP: INR 173**

**Rating: Hold**

**Target Price: INR 187**

**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)	12,726
52w H/L (INR)	200/ 116
Avg Yearly Vol (in 000')	2,205

**Shareholding Pattern %**

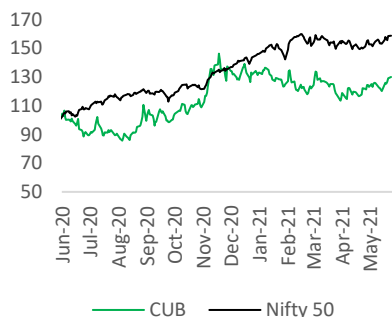
(As on March, 2021)

Promoters	Nil
FII	18.0
DII	39.1
Public & Others	42.9

**Stock Performance (%)**

	3m	6m	12m
CUB	-5.0	-5.3	27.1
Nifty 50	2.2	18.9	62.7

**CUB Vs Nifty**



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City Union Bank (CUB) reported weak operating performance impacted by lower NII on account of high interest reversal. Profit for the quarter Q4FY21 came in at INR 111 cr vs. our estimate of INR 120 cr. The bank has ended the year with 3% slippage ratio as compared to 3.2% in FY20 and restructured book at 5% of loans. Management expect the asset quality impact of the second wave of the pandemic to play out by H1FY22 and expects lower slippages/NPA formation in FY22E vs. FY21 with expectation of ROA to normalise to ~1.5% by FY23E. GNPA ratio for the quarter stood at 5.1%. Net NPA declined by ~40 bps QoQ to 3.0% from pro forma NNPA of ~3.4% in 3QFY21. Credit growth remains stable at 7% YoY/1.4% QoQ. Deposit growth has been stable at ~9% YoY with CASA ratio at 29.1% (+166 bps QoQ).

**Weak Operating performance**

NII growth for the quarter was lower at 2% YoY due to interest reversal of INR 70 cr during Q4FY21. Other income for the quarter de-grew by 19% YoY to INR 145 cr due to lower treasury income. As a result, operating profit de-grew by 15% YoY/38% QoQ to INR 285 cr vs. our estimate of INR 397 cr. NIM declined by 44 bps QoQ to 3.7% primarily on account of due to interest reversal on NPA and interest waiver. Treasury income for the quarter stood at INR 30 cr vs. INR 79 cr YoY. Cost to income ratio of the bank increased from 36.2% to 50.4% QoQ. (largely due to lower operating income).

**Loan growth remained stable**

CUB has reported loan growth of 7.1% YoY (as compared to 7.9% in Q3FY21), led by gold loan and MSME (driven by ECLGS) portfolio. The bank has sanctioned around INR 2,213 cr under the ECLGS and disbursed around INR 1,960 cr. Agri-loan for the quarter de-grew by 12% YoY. There was reclassification of loans from the 'large industries' segment to 'MSME', as a result of which the SME book grew by 36% YoY. If we adjust this reclassification, the SME book grew ~6% YoY and it currently accounts for ~40% of overall advances. Management has guided for mid to high single digit growth in advances in FY22E.

**Asset quality within management guidance**

Reported GNPA/NNPA for the quarter stood at 5.1%/3%. The bank has reported slippages of INR 1,110 cr for 4QFY21. FY21 slippages of 3.2% were marginally lower than earlier management guidance of ~3.5%. Total restructured advances stood at ~5.1% of advances – in line with the earlier guidance of 5-6%. Further, the SMA 2 book stood at ~2% as on Q4FY21 (much below the ~6% level in 3QFY21). As of 3QFY21, the bank carried a provision buffer of INR 465 cr against Covid (including pro forma GNPA). Out of this, the bank written back INR 309 cr provision in 4QFY21 and utilized it for NPA provision. As a result, the ad-hoc Covid provision remaining as of 4QFY21 stood at INR 156 cr (~40 bps of advances).

**Valuation & View:** We cut our earnings estimates by 8%/9% for FY22/23E to factor in moderation in loan growth. While the management commentary was optimistic on asset quality front as Covid 2.0 will have less impact than Covid 1.0, we remain watchful on asset quality front as near-term business challenges remain high and loan growth is yet to pick up. CRAR ratio of the bank increased from 16.8% in FY20 to 19.5% in FY21 due to higher growth in gold loan and ECLGS which has lower risk weights. We maintain our Hold rating on the stock with a revised target price of INR 187, valuing the bank at P/adj. BV of 2.1x FY23E ABV.

(Rs Cr)	FY20A	FY21E	FY22E	FY23E
NII	1,675	1,830	1,951	2,190
PPOP	1,341	1,484	1,558	1,748
PAT	476	593	743	911
RoA (%)	1.5	1.6	1.6	1.0
RoE (%)	15.2	15.3	15.2	9.4
P / ABV (x)	2.8	2.7	2.3	1.9

## Quarterly Result Snapshot

Particulars (Rs. in Crore)	Q4 FY21	Q4 FY20	YoY	Q3FY21	QoQ
Interest earned	976	1042	-6.3%	1048	-6.8%
Interest expended	548	622	-12.0%	559	-2.0%
<b>NII</b>	<b>429</b>	<b>419</b>	<b>2.2%</b>	<b>489</b>	<b>-12.4%</b>
NIM (%)	3.72	3.91	-19bps	4.16	-44bps
Non-interest income	145	179	-19.1%	230	-36.9%
Operating Expenses	289	264	9.6%	260	11.0%
Employee cost	107.2	93.8	14.3%	120.2	-10.8%
Cost-Income ratio (%)	50.4	44.0	633bps	36.2	1415bps
<b>Operating Profit</b>	<b>285</b>	<b>335</b>	<b>-15.0%</b>	<b>458</b>	<b>-37.9%</b>
Provisions	239	450	-47.0%	219	9.2%
PBT	46	-115	-140.1%	240	NA
Tax provisions	-65	-20	225.0%	70	NA
Effective tax rate	NA	NA	-	29%	NA
<b>Net profit</b>	<b>111</b>	<b>-95</b>	<b>NA</b>	<b>170</b>	<b>-34.6%</b>
EPS	1.5	-1.3	NA	2.3	-34.6%

## Asset Quality (%)

Particulars	Q4 FY21	Q4 FY20	YoY	Q3FY21	QoQ
GNPA	5.11	4.09	102bps	2.94	217bps
NNPA	2.97	2.29	68bps	1.47	150bps
PCR	64.0	65.0	-100bps	73.0	-900bps

## Quarterly Performance

Particulars	Q4 FY21	Q4 FY20	YoY	Q3FY21	QoQ
Advances	37021	34576	7.1%	36504	1.4%
Deposits	44537	40833	9.1%	43288	2.9%
CASA	12981	10197	27.3%	11899	9.1%
CASA %	29.1	25.0	417bps	27.5	166bps
C-D ratio %	83.1	84.7	-155bps	84.3	-120bps
Capital Adequacy %	19.5	16.8	276bps	17.4	213bps

## Key Financials

Income Statement				
Income Statement (Rs Cr)	2020	2021	2022E	2023E
Interest Earned	4169	4135	4673	5188
Interest Expended	2493	2305	2722	2998
<b>Net Interest Income</b>	<b>1675</b>	<b>1830</b>	<b>1951</b>	<b>2190</b>
Other Income	680	705	715	757
Fee Income	308	262	301	346
Treasury Income	244	325	299	296
<b>Operating Income</b>	<b>2355</b>	<b>2534</b>	<b>2666</b>	<b>2947</b>
Operating Expenses	1014	1051	1108	1199
Employee Expenses	421	464	462	476
<b>Profit before provision &amp; tax</b>	<b>1341</b>	<b>1484</b>	<b>1558</b>	<b>1748</b>
Provisions and Contingencies	755	791	565	531
<b>Profit Before Tax</b>	<b>586</b>	<b>693</b>	<b>992</b>	<b>1217</b>
Provision for tax	110	100	250	306
Exp. Items	0	0	0	0
<b>Profit After Tax</b>	<b>476</b>	<b>593</b>	<b>743</b>	<b>911</b>

Balance Sheet				
Balance Sheet (Rs Cr)	2020	2021	2022E	2023E
<b>Sources of funds</b>				
Share Capital	74	74	74	74
Total Reserves	5222	5769	6511	7422
<b>Shareholder's Fund</b>	<b>5296</b>	<b>5842</b>	<b>6585</b>	<b>7496</b>
Deposits	40832	44537	48486	53504
Borrowings	2032	1346	1911	2484
Other Liabilities & provisions	1573	1586	1826	1907
<b>Total Liabilities</b>	<b>49734</b>	<b>53312</b>	<b>58808</b>	<b>65390</b>
<b>Application of Funds</b>				
Cash & Bank	4722	5615	5407	5808
Investments	9117	9436	11005	11776
Advances	33927	36158	39774	44546
Fixed Assets	245	233	263	310
Other Assets	1722	1870	2360	2950
<b>Total Assets</b>	<b>49734</b>	<b>53312</b>	<b>58808</b>	<b>65390</b>

Ratios %				
Operational Ratios (%)	2020	2021	2022E	2023E
<b>Asset Quality</b>				
Gross NPA	4.09	5.11	5.04	4.78
Net NPA	2.29	2.97	2.57	2.08
PCR	64.0	64.0	64.0	64.0
<b>Growth</b>				
Advances Growth	3.8	6.6	10.0	12.0
Deposit growth	6.2	9.1	8.9	10.3
Net Profit Growth	-30.2	24.4	25.3	22.6
<b>Liquidity</b>				
C-D Ratio	83.1	81.2	82.0	83.3
CASA	25.0	24.3	24.6	24.8
Capital Adequacy	16.8	19.5	17.4	17.6
<b>Efficiency</b>				
Cost Income Ratio	43.0	41.5	41.6	40.7
Operating Costs to Assets	2.0	2.0	1.9	1.8

Ratios %				
Valuation Ratios (%)	2020	2021	2022E	2023E
<b>Spread Analysis</b>				
Yield on Advances	10.5	10.0	10.0	10.0
Yield on Investments	7.2	6.3	6.5	6.5
Cost of Funds	6.1	5.2	5.7	5.6
Cost of Deposits	6.1	5.2	5.7	5.8
NIM	3.7	3.7	3.6	3.7
Interest Spread	4.4	4.8	4.4	4.4
<b>Profitability</b>				
ROE	9.4	10.6	11.9	12.9
ROA	1.0	1.2	1.3	1.5
Earnings Per Share (Rs)	6.5	8.0	10.0	12.3
Adjusted Book Value (Rs)	61.3	64.5	75.3	88.9
<b>Valuation</b>				
P / EPS (x)	26.8	21.6	17.2	14.0
P / ABV (x)	2.8	2.7	2.3	1.9

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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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