

CMP: INR 127

Rating: Accumulate

Target Price: INR 147

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)	9,370
52w H/L (INR)	184 / 109
Avg Yearly Vol (in 000')	2,192

Shareholding Pattern %

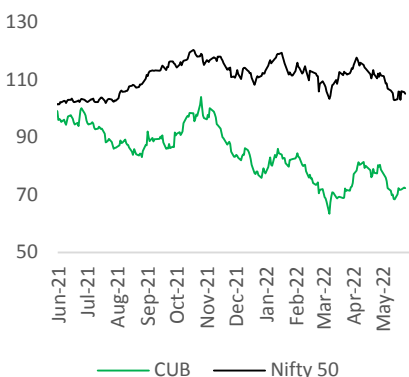
(As on March, 2022)

Promoters	Nil
FII	18.1
DII	41.2
Public & Others	40.7

Stock Performance (%)

	1m	3m	12m
CUB	-8.8	1.5	-27.1
Nifty 50	-4.0	-1.8	6.7

CUB Vs Nifty



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City Union Bank (CUB) reported good performance during Q4FY22 with strong profit growth of 88% YoY/7% QoQ to INR 209 cr was higher than our estimate of INR 172 cr, driven by better operating performance, reduction in operating expense and 28% YoY decline in provisions. NII growth was strong supported by better loan growth. Bank has reported healthy improvement in credit growth at 11% YoY, led by strong growth in gold loan. The bank expects low to mid double-digit advances growth in FY23E with an intent to grow nongold portfolio faster in a risk calibrated manner. Asset quality of the bank improved sharply with GNPA/NNPA ratio decreased by 51bps/49bps QoQ at 4.7%/3% respectively. Gross slippages of the bank declined by 20% QoQ at INR 221 cr (Slippage ratio at 2.1%). Slippage ratio in FY23 is expected to be in the range of 2-2.5%.

Operating performance was strong

NII for the quarter grew by 17% YoY/2% QoQ to INR 501 cr, led by credit growth of 11% YoY/7% QoQ. NIM of the bank was stable QoQ at 4%. Other income was higher by 40%YoY/27% QoQ due to higher recoveries from written-off accounts (91% YoY/58% QoQ) and higher treasury gains of INR 50 cr (15% YoY/22% QoQ). Operating expenses declined by 9% YoY/6% QoQ due to some rationalisation of cost measures undertaken. Operating profit for the quarter increased by 55% YoY/19% QoQ to INR 440 cr, was 26% higher than our estimates.

Loan growth improved sequentially

CUB's loan growth has improved at 11% YoY/7% QoQ (vs +5% YoY in Q3FY22) to INR 41,156 cr. In terms of loan mix, in the fourth quarter, less than a third of the loan growth came from gold loans. Going forward, the share of non-gold loans is expected to rise. MSME portfolio of the bank increased by 10% YoY/9% QoQ to INR 16,071 cr. Agri portfolio increased by 52% YoY/13% QoQ. Gold loan portfolio increased strongly by 38% YoY/10% QoQ to INR 9,003 cr. Deposit growth was at 7% YoY/2% QoQ with CASA at 32.6% (+277 QoQ).

Asset quality saw good improvement

Bank has reported slippages of INR 221 cr (-20% QoQ) or 2.1% of advances. Recoveries & upgrades was healthy at INR 211 cr for Q4FY22 (INR 186 cr in Q3FY22), implying net NPA addition of INR 10 cr for the quarter. Restructured book stood at INR 2,184 cr (~5.4% of advances) vs INR 2,202 cr (5.7% of advances) in Q3FY22. Moreover, there was reduction in SMA 1 and 2 book sequentially. Management has stated that SMA2 book used to be 5-7% in the pre covid days but it has declined to 1.4%, which includes accounts from ECLGS and restructured book. Collections have been improving in the restructured book, which would result in slippages ratio of 2-2.5% and lower credit cost going forward.

Valuation & View: We have increased our FY23/24E earnings estimates by 8%/7% respectively to factor in better credit growth. Overall, bank has reported good quarter with strong operating performance, increasing credit growth and improvement in asset quality. Management expects to achieve 1.5% RoA in H2FY23E and we believe bank is well on track. Given the bank's higher capital ratio, strong underwriting skills, consistent return ratios, and adequate liquidity, we remain positive on CUB. We build in RoA/RoE of 1.6%/14% for FY24E. We revise our rating on the stock to Accumulate from Hold with a target price of INR 147, valuing the bank at P/adj. BV of 1.4x FY24E ABV.

(Rs Cr)	FY21A	FY22	FY23E	FY24E
NII	1,830	1,916	2,371	2,627
PPOP	1,484	1,595	1,912	2,153
PAT	593	760	1,006	1,136
NIM (%)	3.7	3.5	3.8	3.8
RoA (%)	1.2	1.3	1.5	1.6
RoE (%)	10.6	12.2	14.2	13.9
P / ABV (x)	2.0	1.7	1.4	1.2

Quarterly Result Snapshot

Particulars	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
Interest Earned	1050	976	7.5%	1035	1.4%
Interest Expended	549	548	0.3%	545	0.7%
NII	501	429	16.8%	490	2.2%
NIM (%)	4.01	3.72	29bps	4.00	1bps
Non-interest income	203	145	39.9%	160	26.8%
Operating Expenses	264	289	-8.7%	280	-5.9%
Employee cost	114	107.2	5.9%	134	-15.1%
Cost-Income ratio (%)	37.5	50.4	-1287bps	43.1	-563bps
Operating Profit	440	285	54.5%	370	19.0%
Provisions	171	239	-28.4%	124	38.4%
PBT	269	46	482.3%	246	9.3%
Tax provisions	60	-65	NA	50	20.0%
Effective tax rate	22%	NA		20%	
Net profit	209	111	87.9%	196	6.5%
EPS	2.8	1.5	89.9%	2.7	6.8%

Asset Quality (%)

Particulars	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
GNPA	4.7	5.1	-41bps	5.2	-51bps
NNPA	3.0	3.0	-2bps	3.4	-49bps
PCR	64.0	64.0	0bps	62.0	200bps

Business Performance

Particulars	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
Advances	41156	37021	11.2%	38387	7.2%
Deposits	47690	44537	7.1%	46722	2.1%
CASA	15529	12981	19.6%	13918	11.6%
CASA %	32.6	29.1	342bps	29.8	277bps
C-D ratio %	86.3	83.1	318bps	82.2	414bps
NIM	4.0	3.7	29bps	4.0	1bps
Capital Adequacy %	20.9	19.5	133bps	19.4	146bps

Key Financials

Income Statement				
Income Statement (Rs Cr)	2021	2022	2023E	2024E
Interest Earned	4135	4105	5487	6147
Interest Expended	2305	2188	3115	3520
Net Interest Income	1830	1916	2371	2627
Other Income	705	759	790	883
Fee Income	262	292	336	386
Treasury Income	325	246	339	381
Operating Income	2534	2676	3161	3509
Operating Expenses	1051	1080	1249	1356
Employee Expenses	464	504	603	620
Profit before provision & tax	1484	1595	1912	2153
Provisions and Contingencies	791	610	568	635
Profit Before Tax	693	985	1344	1518
Provision for tax	100	225	338	382
Exp. Items	0	0	0	0
Profit After Tax	593	760	1006	1136

Balance Sheet				
Balance Sheet (Rs Cr)	2021	2022	2023E	2024E
Sources of funds				
Share Capital	74	74	74	74
Total Reserves	5769	6512	7517	8653
Shareholder's Fund	5842	6586	7591	8727
Deposits	44537	47690	53689	60785
Borrowings	1346	5312	5577	5689
Other Liabilities & provisions	1586	1944	1925	2092
Total Liabilities	53312	61532	68781	77293
Application of Funds				
Cash & Bank	5615	6687	6614	7167
Investments	9436	12221	13829	15498
Advances	36158	40358	45201	50626
Fixed Assets	233	215	253	312
Other Assets	1870	2050	2883	3690
Total Assets	53312	61531	68781	77293

Ratios %				
Operational Ratios (%)	2021	2022	2023E	2024E
Asset Quality				
Gross NPA	5.1	4.8	4.2	4.1
Net NPA	3.0	3.0	2.2	1.9
PCR	64.0	64.0	64.0	64.0
Growth				
Advances Growth	6.6	11.6	12.0	12.0
Deposit growth	9.1	7.1	12.6	13.2
Net Profit Growth	24.4	28.3	32.3	12.9
Liquidity				
C-D Ratio	81.2	84.6	84.2	83.3
CASA	29.1	32.6	34.3	36.4
Capital Adequacy	19.5	17.1	17.6	18.1
Efficiency				
Cost Income Ratio	41.5	40.4	39.5	38.6
Operating Costs to Assets	2.0	1.8	1.8	1.8

Ratios %				
Valuation Ratios (%)	2021	2022	2023E	2024E
Spread Analysis				
Yield on Advances	10.0	10.0	10.0	10.0
Yield on Investments	6.3	5.8	6.5	6.5
Cost of Funds	5.2	4.4	5.5	5.6
Cost of Deposits	5.2	4.6	6.0	6.1
NIM	3.7	3.5	3.8	3.8
Interest Spread	4.8	5.6	4.5	4.4
Profitability				
ROE	10.6	12.2	14.2	13.9
ROA	1.2	1.3	1.5	1.6
Earnings Per Share (Rs)	8.0	10.3	13.6	15.4
Adjusted Book Value (Rs)	64.5	72.9	89.4	105.2
Valuation				
P / EPS (x)	15.8	12.4	9.3	8.3
P / ABV (x)	2.0	1.7	1.4	1.2

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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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