

CMP: INR 160

Rating: Hold

Target Price: INR 172

Stock Info

BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	740
Mkt Cap (INR Mn)	117,730
52w H/L (INR)	175 / 120
Avg Yearly Vol (in 000')	4,515

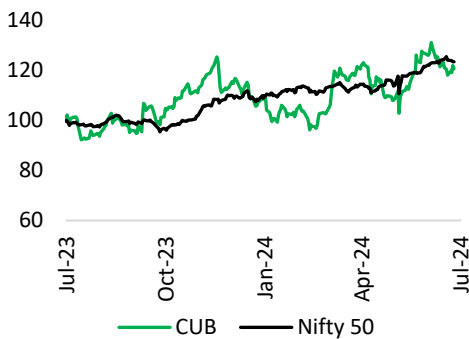
Shareholding Pattern %

(As on June, 2024)

Promoters	Nil
Public & Others	100

Stock Performance (%)	1m	6m	12m
CUB	-4.8	11.2	20.9
Nifty 50	3.8	14.0	25.3

CUB Vs Nifty



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City Union Bank (CUB) has displayed a seasonally weak performance during Q1FY25 with sequential fall in profit by 1.1% QoQ / up 10.9% YoY to INR 2,519 mn, better than our estimates of INR 2,428 mn. NII de-grew by 2.6% QoQ / up 1.9% YoY to INR 5,326 mn. Bank has reported credit growth of 0.1% QoQ / up 9.8% YoY to INR 465 bn. Management has given a guidance of significant profit growth beyond FY26, to be led by digital lending. Asset quality of the bank improved with GNPA/NNPA ratio were down 11 bps/10 bps QoQ to 3.88%/1.87% respectively. In Q1FY25, the bank witnessed higher recoveries than slippages leading to negative Credit Cost.

PPOP de-growth led by increase in expenses as well as fall in NII

NII for the quarter declined marginally by 2.6% QoQ / up 1.9% YoY to INR 5.32 bn, led by increase in Cost of Funds by 23 bps YoY /flat sequentially. NIM of the bank decreased sequentially by 13 bps QoQ / down 13 bps YoY to 3.54%. Other income increased by 9.6% QoQ / up 0.3% YoY due to slow credit growth over previous year. The bank written off a/c's to the tune of INR 742 mn. Bank has reported treasury income of INR 172 mn vs INR 405 mn in Q1FY24. Operating expenses decreased by 1.7% QoQ/up 21.4% YoY. Hence, increased Costs and expenses led to Operating profit decline over last year by 12.9% YoY to INR 3.6 bn, but still higher than our estimate of INR 3.4 bn.

Loan growth guidance of early double digits for FY24

Bank's total advances growth was relatively flat (up 0.1% QoQ/up 9.8% YoY) to INR 465 bn. Deposits degrew by 1.4% QoQ/up 6.2% YoY with CASA ratio coming down further by 111 bps QoQ / down 125 bps YoY to 29.52% from 30.63% in Q4FY24.

Reduction in overall NPAs expected in subsequent quarters

Bank has reported negative Credit Cost for Q1FY25 due to higher number of recoveries than slippages in the quarter. The GNPA/NNPA came down by 11 bps/10 bps QoQ to 3.88%/1.87% respectively.

Valuation & View: CUB has posted muted margins compared to its industry peers. The Bank's profitability is expected to increase as the recoveries continue to be higher than the Provisioning required for subsequent quarters. With the digital lending platform, the bank is eyeing strong growth in coming years. We believe the bank can post the annual growth guidance of 12-15% growth given earlier. However, we remain cautious on their long term growth abilities. We downgrade our rating on the stock to Hold with a target price of INR 172, valuing the bank at P/adj. BV of 1.2x FY27E ABV.

Financial Snapshot:

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
NII	2,163	2,285	2,292	2,780	3,146
PPOP	1,818	1,896	2,008	2,552	2,943
PAT	937	1,021	1,140	1,493	1,725
NIM (%)	3.5	3.5	3.2	3.5	3.5
RoA (%)	1.5	1.5	1.5	1.8	1.8
RoE (%)	13.4	12.8	12.6	14.4	14.4
P / ABV (x)	1.5	1.3	1.1	1.0	1.0

Quarterly Result Update (INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Interest Income	13,761	13,741	12,662	0.1%	8.7%
Interest Expended	8,435	8,275	7,436	1.9%	13.4%
Net Interest Income	5,326	5,466	5,225	-2.6%	1.9%
Other Income	1,921	1,752	1,915	9.6%	0.3%
Operating Income	7,247	7,218	7,140	0.4%	1.5%
Operating Expenses	3,638	3,700	2,998	-1.7%	21.4%
Employee Expenses	1,744	1,678	1,322	3.9%	32.0%
Other Operating Expenses	1,894	2,022	1,676	-6.3%	13.0%
PPOP	3,609	3,518	4,143	2.6%	-12.9%
Provisions	390	320	1,520	21.9%	-74.3%
PBT	3,219	3,198	2,623	0.7%	22.7%
Tax Expenses	700	650	350	7.7%	100.0%
Net Income	2,519	2,548	2,273	-1.1%	10.9%
Balance Sheet Analysis					
Advances	4,65,479	4,64,815	4,24,048	0.1%	9.8%
Deposits	5,48,569	5,56,566	5,16,548	-1.4%	6.2%
CASA Deposits	1,61,950	1,70,502	1,58,931	-5.0%	1.9%
CASA (%)	29.52%	30.63%	30.77%	-111bps	-125bps
CAR (%)	23.58%	23.73%	23.02%	-15bps	56bps
Spreads					
NIMs (%)	3.54%	3.67%	3.67%	-13bps	-13bps
Cost of Funds	4.80%	4.80%	4.57%	0bps	23bps
Yield on Average Advances	9.70%	9.70%	0.00%	0bps	970bps
Asset Quality					
GNPA	18,064	18,544	20,811	-2.6%	-13.2%
NNPA	8,535	8,987	10,386	-5.0%	-17.8%
GNPA (%)	3.88%	3.99%	4.91%	-11bps	-103bps
NNPA (%)	1.87%	1.97%	2.51%	-10bps	-64bps
Provision Coverage Ratio	73%	71%	70%	200bps	300bps
Returns & Expenses					
RoA	1.51%	1.48%	1.40%	3bps	11bps
RoE	12.45%	12.39%	12.10%	6bps	35bps
Cost / Income Ratio	49.34%	47.06%	41.98%	228bps	736bps

Source: Arianth Research, Company Filings

Q1FY25 Conference Call Highlights:

Guidance:

- Despite upfront expenses impacting current profitability, significant profits are expected post-FY26, with a break-even anticipated next year.
- The company aims for double-digit growth and projects a strong recovery within the next 4-5 quarters.

Financial Highlights and Ratios

- Total deposits reached INR 54,857 Cr, growing by 6% YoY, and advances increased to INR 46,548 Cr with a 10% YoY growth.
- Key financial metrics include a NIM of 3.54%, Net NPA of 1.87%, an efficiency ratio of 49.34%, ROA of 1.51%, an ROE of 12.45%, and a CRAR of 23.58% (Basel III).
- Gross profit stood at INR 373.5 Cr, with a PAT of INR 264.5 Cr, growing by 16% YoY. Net interest income was INR 545.2 Cr, with a 4% YoY growth.

Digital Lending and Technological Advancements

- Expansion and growth in digital lending facilities have been prioritized, focusing on MSME lending automation.
- The company has hired BCG for a one-year contract to enhance API integration and streamline the digital lending process.
- Digital capex includes a 25-30 Cr investment in BCG, along with 10-15 Cr in software and API development.
- Notable improvements include reduced credit card issuance times from months to days and no payment delays over the past few months.

Focused Product and Service Enhancements

- New product launches are planned for September, including pilot projects and advanced underwriting processes.
- Prioritizing MSME lending, followed by housing and car loans.
- Enhanced digital lending solutions and innovative product offerings such as BBPS automation, napID (Zero Factor Authenticator), and UPI Lite products.

Operational and Strategic Initiatives

- The company focuses on a specialized SME/MSME business model, offering high yields and superior client servicing.
- Continuous investment in employee training and recruitment, facilitated through staff training colleges.
- Sustained ROA and ROE, with business growth averaging 15% CAGR over the last decade.
- Strong capital adequacy ratio of 23.58%, with Tier 1 capital constituting 22.55%.
- Trading and MSME loans form approximately 40% of advances, with unsecured advances aggregating to 1%.
- Significant growth in non-agri gold loans at 17% YoY, and Net NPA levels have decreased to pre-COVID figures.

Key Financials

Income Statement

Income Statement (Rs Cr)	2022	2023	2024	2025E	2026E	2027E
Interest Earned	4105	4714	5420	6034	7010	7934
Interest Expended	2188	2552	3135	3741	4230	4788
Net Interest Income	1916	2163	2285	2292	2780	3146
Other Income	759	810	891	1086	1244	1382
Fee Income	292	336	370	410	459	514
Treasury Income	246	334	406	561	669	753
Operating Income	2676	2973	3175	3378	4024	4528
Other Expenses	577	625	700	784	878	983
Employee Expenses	504	530	579	587	594	602
Profit before provision & tax	1595	1818	1896	2008	2552	2943
Provisions and Contingencies	610	641	533	485	556	638
Profit Before Tax	985	1177	1364	1523	1996	2305
Provision for tax	225	240	343	383	502	580
Exp. Items	0	0	0	0	0	0
Profit After Tax	760	937	1021	1140	1493	1725

Balance Sheet

Balance Sheet (Rs Cr)	2022	2023	2024	2025E	2026E	2027E
Sources of funds						
Share Capital	74	74	74	74	74	74
Total Reserves	6512	7383	8404	9543	11037	12762
Shareholder's Fund	6586	7457	8478	9617	11111	12836
Deposits	47690	52398	59233	67023	75910	86058
Borrowings	5312	4688	4922	5267	5688	6144
Other Liabilities & provisions	1944	2051	2199	2622	2958	3297
Total Liabilities	61532	66594	74832	84529	95667	108333
Application of Funds						
Cash & Bank	6687	6649	7107	7924	8757	9689
Investments	12221	14333	14673	16477	18517	20830
Advances	40358	43053	45852	49978	57475	66097
Fixed Assets	215	239	267	297	332	370
Other Assets	2050	2320	2970	3801	4865	6228
Total Assets	61531	66595	70869	78477	89947	103213

Source: Arian Research, Company Filings

Ratios %

Operational Ratios (%)	2022	2023	2024	2025E	2026E	2027E
Asset Quality						
Gross NPA	4.8	4.4	4.5	4.5	4.3	4.1
Net NPA	3.0	2.4	2.4	2.4	2.2	2.0
PCR	64.0	64.0	60.0	60.0	60.0	60.0
Growth						
Advances Growth	11.6	6.7	6.5	9.0	15.0	15.0
Deposit growth	7.1	9.9	13.0	13.2	13.3	13.4
Net Profit Growth	-97.0	23.3	8.9	11.7	31.0	15.5
Liquidity						
C-D Ratio	84.6	82.2	77.4	74.6	75.7	76.8
CASA	32.6	29.9	29.1	28.3	27.5	26.6
Capital Adequacy	20.9	22.3	23.1	24.1	24.2	24.3
Efficiency						
Cost Income Ratio	40.4	38.9	40.3	40.6	36.6	35.0
Operating Costs to Assets	1.8	1.7	1.8	1.7	1.6	1.5

Ratios %

Valuation Ratios (%)	2022	2023	2024E	2025E	2026E	2026E
Spread Analysis						
Yield on Advances	9.4	9.2	9.7	9.8	10.0	10.0
Yield on Investments	5.8	6.3	7.0	8.0	8.5	8.5
Cost of Funds	4.4	4.6	5.2	5.5	5.5	5.5
Cost of Deposits	4.6	4.8	5.5	5.8	5.8	5.8
NIM	3.5	3.5	3.5	3.2	3.5	3.5
Interest Spread	4.9	4.6	4.5	4.3	4.5	4.5
Profitability						
ROE	12.2	13.4	12.8	12.6	14.4	14.4
ROA	1.3	1.5	1.5	1.5	1.8	1.8
Earnings Per Share (Rs)	10.3	12.7	13.8	15.4	20.2	20.2
Adjusted Book Value (Rs)	72.9	86.6	99.7	113.5	132.6	132.6
Valuation						
P / EPS (x)	12.5	10.2	9.4	8.4	6.4	6.4
P / ABV (x)	1.8	1.5	1.3	1.1	1.0	1.0

Source: Arianth Research, Company Filings

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Stock Rating Scale

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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