

CMP: INR 164

Rating: Accumulate

Target Price: INR 189

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)	12,114
52w H/L (INR)	200/ 142
Avg Yearly Vol (in 000')	2,483

Shareholding Pattern %

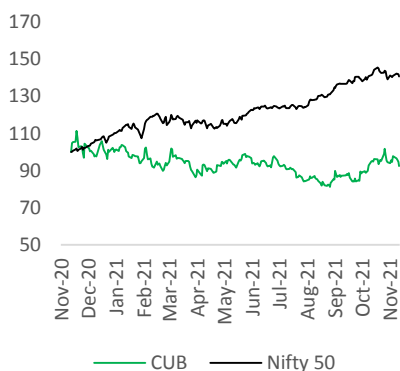
(As on September, 2021)

Promoters	Nil
FII	16.1
DII	42.2
Public & Others	41.7

Stock Performance (%)

	1m	3m	12m
CUB	-3.3	7.8	-8.0
Nifty 50	0.6	10.6	42.6

CUB Vs Nifty



Raju Barnawal
raju.b@arihantcapital.com
022 67114870

City Union Bank (CUB) reported in-line operating performance while profit growth was higher than our estimates. Profit for the quarter came in at INR 182 cr vs our estimate of INR 165 cr, due to higher other income and lower provisioning. Slippages ratio moderated to 3.1% vs. 5.3% in Q1FY22 coupled with strong recoveries and upgrades, which kept the GNPA/NNPA ratio flat at 5.6%/3.5% respectively on a sequential basis. Restructured book of the bank increased marginally from 5.5% to 5.9% QoQ. Management reiterated the guidance of ~1.5% RoA by H2FY23. Loan growth for the quarter improved as compared to previous quarter at 7.3% YoY/4.4% QoQ (vs. 5.4% YoY in Q1FY22) and deposits growth was at 12% YoY (vs. 9% YoY in Q1FY22).

Operating performance was in line with our estimate

NII growth for the quarter stood at 1% YoY/7% QoQ to INR 478 cr was supported by margins improvement of 17bps QoQ. NIM improvement was due to lower interest reversal and improvement in cost of funds at 3.9% vs. 4.1% in Q1FY22. Management expects NIMs to be in the range of 3.8-4% in FY22E. Other income for the quarter was higher by 20% YoY/4% QoQ to INR 203 cr led by higher recoveries at INR 78 cr (vs. 36 cr in Q2FY21) while fees income growth was at 12% YoY. Operating profit for the quarter grew by 5% YoY/6% QoQ to INR 405 cr vs. our estimate of INR 392 cr. Provisions for the quarter was lower by 13% QoQ at INR 148 cr.

Loan growth improved as compared to previous quarter led by gold loan

CUB's loan growth for the quarter stood at 7% YoY/4.4% QoQ to INR 38,012 cr, led by Gold loan which grew by 73% YoY/14% QoQ (21% of the portfolio). MSME loans grew by 15% YoY, while wholesale traders/CRE loans de-grew by 2%/13% YoY. Management stated that they expect mid-high single digit credit growth in FY22E. CASA deposit grew by 26% YoY with CASA ratio at 29% vs. 28% QoQ.

Asset quality was stable; restructuring pool increased marginally at 5.9%

Reported GNPA/NNPA for the quarter stood at 5.6%/3.5%. The bank has reported slippages of INR 297 cr (~3.1% slippage ratio) for Q2FY22. Recoveries and upgrades for the quarter was strong at INR 1,275 cr vs. INR 822 cr QoQ. Write-offs were lower at INR 860 cr vs. INR 2,578 cr QoQ. Restructured advances stood at INR 2,248 cr or 5.9% of the loans. The Bank holds a standard accounts provision with respect to restructured accounts to the tune of INR 167 cr. Of the restructured portfolio 20-25% may slip to NPA over the next 2-3 years. With improving economic activity and high share of secured book (~99%), Management is confident of healthy recovery and upgrades from stress pool. Thus, credit cost expected to normalize gradually.

Valuation & View: CUB's Q2FY22 performance was steady on operational front and slippages came in lower on QoQ basis. Restructuring pool of the bank stood largely stable sequentially. Given the bank's strong underwriting skills, consistent return ratios, adequate liquidity and superior management, we remain positive on CUB. We increase our FY22/23E upwards by 4% and introduce FY24E. We revise our rating on the stock to Accumulate from Hold with a revised target price of INR 189, valuing the bank at P/adj. BV of 1.9x FY24E ABV.

(Rs Cr)	FY21A	FY22E	FY23E	FY24E
NII	1,830	1,982	2,263	2,541
PPOP	1,484	1,591	1,797	2,047
PAT	593	748	926	1,063
NIM (%)	3.7	3.7	3.8	3.8
RoA (%)	1.2	1.3	1.5	1.5
RoE (%)	10.6	12.0	13.1	13.2
P / ABV (x)	2.5	2.3	1.9	1.6

Quarterly Result Snapshot

Particulars	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
Interest Earned	1022	1061	-3.7%	997	2.5%
Interest Expended	544	586	-7.1%	550	-1.1%
NII	478	475	0.7%	448	6.8%
NIM (%)	4.03	4.12	-9bps	3.86	17bps
Non-interest income	203	169	19.7%	196	3.6%
Operating Expenses	276	260	6.2%	260	6.0%
Employee cost	127.0	119.9	5.9%	129.3	-1.8%
Cost-Income ratio (%)	40.5	40.3	20bps	40.5	5bps
Operating Profit	405	385	5.3%	383	5.8%
Provisions	148	177	-16.4%	170	-13.0%
PBT	257	208	23.8%	213	20.7%
Tax provisions	75	50	50.0%	40	NA
Effective tax rate	29%	24%	-	NA	NA
Net profit	182	158	15.5%	173	5.3%
EPS	2.4	2.1	14.6%	2.3	5.2%

Asset Quality (%)

Particulars	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
GNPA	5.6	3.4	214bps	5.6	-1bps
NNPA	3.5	1.8	167bps	3.5	-1bps
PCR	62.0	70.0	-800bps	63.0	-100bps

Business Performance

Particulars	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
Advances	38012	35437	7.3%	36396	4.4%
Deposits	46316	41421	11.8%	44606	3.8%
CASA	13411	10645	26.0%	12299	9.0%
CASA %	29.0	25.7	326bps	27.6	138bps
C-D ratio %	82.1	85.6	-348bps	81.6	48bps
NIM	4.0	4.1	-9bps	3.9	17bps
Capital Adequacy %	19.2	17.4	188bps	19.6	-34bps

Key Financials

Income Statement				
Income Statement (Rs Cr)	2021	2022E	2023E	2024E
Interest Earned	4135	4755	5376	6063
Interest Expended	2305	2772	3113	3522
Net Interest Income	1830	1982	2263	2541
Other Income	705	717	765	852
Fee Income	262	301	346	398
Treasury Income	325	302	304	339
Operating Income	2534	2699	3028	3393
Operating Expenses	1051	1108	1231	1346
Employee Expenses	464	462	508	522
Profit before provision & tax	1484	1591	1797	2047
Provisions and Contingencies	791	591	560	626
Profit Before Tax	693	1000	1237	1420
Provision for tax	100	252	311	358
Exp. Items	0	0	0	0
Profit After Tax	593	748	926	1063

Balance Sheet				
Balance Sheet (Rs Cr)	2021	2022E	2023E	2024E
Sources of funds				
Share Capital	74	74	74	74
Total Reserves	5769	6517	7443	8506
Shareholder's Fund	5842	6591	7517	8580
Deposits	44537	49409	55595	63040
Borrowings	1346	1480	1554	1585
Other Liabilities & provisions	1586	1558	1563	1629
Total Liabilities	53312	59039	66228	74833
Application of Funds				
Cash & Bank	5615	5454	5914	6444
Investments	9436	11182	12178	13917
Advances	36158	39774	44546	49892
Fixed Assets	233	263	310	382
Other Assets	1870	2367	3279	4198
Total Assets	53312	59039	66228	74833

Ratios %				
Operational Ratios (%)	2021	2022E	2023E	2024E
Asset Quality				
Gross NPA	5.11	5.14	4.97	4.82
Net NPA	2.97	3.10	2.81	2.46
PCR	64.0	64.0	64.0	64.0
Growth				
Advances Growth	6.6	10.0	12.0	12.0
Deposit growth	9.1	10.9	12.5	13.4
Net Profit Growth	24.4	26.3	23.7	14.8
Liquidity				
C-D Ratio	81.2	80.5	80.1	79.1
CASA	24.3	26.0	27.7	29.5
Capital Adequacy	19.5	17.4	17.7	18.0
Efficiency				
Cost Income Ratio	41.5	41.0	40.6	39.7
Operating Costs to Assets	2.0	1.9	1.9	1.8

Ratios %				
Valuation Ratios (%)	2021	2022E	2023E	2024E
Spread Analysis				
Yield on Advances	10.0	10.0	10.0	10.0
Yield on Investments	6.3	6.5	6.5	6.5
Cost of Funds	5.2	5.7	5.8	5.8
Cost of Deposits	5.2	5.8	5.8	5.8
NIM	3.7	3.7	3.8	3.8
Interest Spread	4.8	4.3	4.2	4.2
Profitability				
ROE	10.6	12.0	13.1	13.2
ROA	1.2	1.3	1.5	1.5
Earnings Per Share (Rs)	8.0	10.1	12.5	14.4
Adjusted Book Value (Rs)	64.5	72.5	84.8	99.5
Valuation				
P / EPS (x)	20.4	16.2	13.1	11.4
P / ABV (x)	2.5	2.3	1.9	1.6

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880