



Rise in NPA's, Good Show on other Parameters!

11th Nov, 2016

CMP: Rs. 151
Target Price: Rs. 143
Recommendation: NEUTRAL

Stock Info

BSE Group	A
BSE Code	532210
NSE Symbol	CUB
Bloomberg	CUBK.IN
Reuters	CUBK.BO
BSE Sensex	26,818
NSE Nifty	8,296

Market Info

Market Capital(Rs Cr)	9,044
Equity Capital(Rs Cr)	59.8
Avg. Trading Vol.	6,16,940
52 Wk High/ Low	152/77
Face Value	1

Shareholding Pattern (%) (Sep 2016)

Promoters	0.0
Domestic Institutions	9.8
Foreign Institutions	38.7
Public & Others	51.5

Price Chart:



Business Growth

City Union Bank reported good set of numbers for the quarter ended Sep, 2016. Advances for the bank grew by 16% YoY to Rs 21,972 cr. Deposits for the quarter grew by 11% to Rs 28,393 cr backed by healthy CASA growth of 18%. CASA % improved to 20.7% against 19.5% in corresponding quarter of the previous year. C-D ratio stood at 77.4 vs. 73.9 YoY.

Asset Quality

Asset quality for the quarter deteriorated. Gross NPA came in at 2.7 vs. 2.1 in corresponding quarter of previous year and 2.6 on sequential basis. Net NPA came in at 1.6 vs. 1.4 in corresponding quarter of previous year and 1.6 sequentially. PCR stood at 60% against 61% YoY and 60% sequentially. During the quarter bank has not restructured any accounts nor did the bank sell any assets to ARCs. Total restructured standard advances on the books stood at Rs 188 cr, 0.84% of the gross advances.

Profitability

Net interest income for the bank grew to Rs 301 cr rising by 25% YoY and 8% sequentially. Net interest margins for the bank expanded to 4.2 from 3.7 in corresponding quarter of previous year and from 4.1 sequentially. Cost to income ratio for the bank inclined by 2.9% YoY to 41.6% on account of higher employee expenses. Effective tax rate for the bank decreased to 27% resulting in net profit growth of 14.7% YoY and stood flat on sequential basis.

The branches for the bank stood steady at 525 while ATM's increased at 1369 and number of employees increased to 4749. Capital adequacy for the quarter stood at 14.8% of which Tier-1 stood at 14.4%.

Valuation

Going forward loans to SME / Traders are expected to remain the main drivers of the credit growth for the bank. We have valued the stock at its FY 18E P / ABV of 2.5 (x) and arrived at a fair value of Rs 143 per share. At CMP of Rs 151 the stock is trading at P/ABV of 2.6 (x) to its FY 18E ABV. We have "Neutral" rating on the stock.

SNAPSHOT

(Rs. Cr)	2015	2016	2017E	2018E
Net Interest Income	807	981	1233	1496
Operating Income	1211	1391	1677	1993
Profit After Tax	395	445	511	600
ROE	16.7	15.5	15.7	16.2
P / EPS (x)	14.6	12.7	17.7	15.1
P / ABV (x)	2.3	2.1	3.0	2.6

Source: - Company Data Ace Equity, Aриhant Research



Quarterly Result Snapshot					
Particulars	Q2 FY 17	Q2 FY 16	YoY	Q1 FY 17	QoQ
Interest earned	791	735	7.6%	772	2.4%
Interest expended	489	495		492	
NII	301	240	25.4%	280	7.6%
NIM	4.2	3.7	0.5%	4.1	0.1%
Non-interest income	104	95		111	
Operating Expenses	169	129		155	
Employee cost	76.9	48.9		63.1	
Cost-Income ratio	41.6	38.7	2.9%	39.7	1.9%
Operating Profit	237	205	15.4%	236	0.4%
Provisions	67	50		71	
PBT	170	155	9.3%	165	2.9%
Tax provisions	46	48		42	
Effective tax rate	27%	31%		25%	
Net profit	124	108	14.7%	124	0.2%
EPS	2.1	1.8		2.1	

Asset Quality (%)					
Particulars	Q2 FY 17	Q2 FY 16	YoY	Q1 FY 17	QoQ
GNPA	2.7	2.1	0.6%	2.6	0.1%
NNPA	1.6	1.4	0.3%	1.6	0.0%
PCR	60.0	61.0		60.0	

Quarterly Performance					
Particulars	Q2 FY 17	Q2 FY 16	YoY	Q1 FY 17	QoQ
Advances	21972	18935	16%	21216	4%
Deposits	28393	25616	11%	27936	2%
CASA	5880	4995	18%	5757	2%
CASA %	21.0	19.0		20.6	
C-D ratio %	77.4	73.9		75.9	
Capital Adequacy %	14.8	15.1		15.3	

Source: - Company Data Ace Equity, Arihant Research



Income Statement				
(Rs Cr)	2015	2016	2017E	2018E
Interest Earned	2699	2944	3300	3780
Interest Expended	1891	1963	2067	2284
Net Interest Income	807	981	1233	1496
Other Income	404	410	444	498
Fee Income	43	45	48	52
Treasury Income	60	45	56	68
Operating Income	1211	1391	1677	1993
Operating Expenses	519	558	679	817
Employee Expenses	210	213	311	375
Profit before provision & tax	693	833	998	1176
Provisions and Contingencies	183	231	298	318
Profit Before Tax	510	603	700	858
Provision for tax	126	158	189	257
Exp. Items	11	0	0	0
Profit After Tax	395	445	511	600

Balance Sheet				
(Rs Cr)	2015	2016	2017E	2018E
Sources of funds				
Share Capital	60	60	60	60
Total Reserves	2636	2992	3405	3896
Shareholder's Fund	2696	3052	3465	3956
Deposits	24075	27158	30594	35212
Borrowings	169	113	84	76
Other Liabilities & provisions	932	929	1208	1389
Total Liabilities	27871	31252	35351	40634
Application of Funds				
Cash & Bank	2537	2600	2007	1439
Investments	5871	6324	6989	7827
Advances	17966	21057	24847	29817
Fixed Assets	210	218	224	229
Other Assets	1288	1053	1285	1323
Total Assets	27871	31252	35351	40634

Ratios %				
	2015	2016	2017E	2018E
Asset Quality				
Gross NPA	1.9	2.4	2.8	2.7
Net NPA	1.3	1.5	1.7	1.5
PCR	57.5	60.0	60.0	61.0
Growth				
Advances Growth	11.6	17.2	18.0	20.0
Deposit growth	9.3	12.8	12.7	15.1
Net Profit Growth	13.8	12.5	15.0	17.5
Liquidity				
C-D Ratio	74.6	77.5	81.2	84.7
CASA	19.2	20.4	21.5	22.6
Capital Adequacy	16.6	15.6	15.0	14.3
Efficiency				
Cost Income Ratio	42.8	40.1	40.5	41.0
Operating Costs to Assets	1.9	1.8	1.9	2.0

	2015	2016	2017E	2018E
Spread Analysis				
Yield on Advances	12.7	12.1	11.8	11.4
Yield on Investments	8.3	8.9	8.5	8.3
Cost of Funds	8.1	7.6	7.1	6.9
Cost of Deposits	8.0	7.5	7.2	6.9
NIM	3.2	3.5	3.9	4.1
Interest Spread	4.6	4.5	4.6	4.5
Profitability				
ROE	16.7	15.5	15.7	16.2
Earnings Per Share (Rs)	6.6	7.4	8.5	10.0
Dividend Per Share (Rs)	1.1	1.2	1.4	1.6
Adjusted Book Value (Rs)	41.3	45.6	51.0	58.4
Valuation				
P / EPS (x)	14.6	12.7	17.7	15.1
P / ABV (x)	2.3	2.1	3.0	2.6



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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%

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