



Sustained Performance!

9th Feb, 2017

CMP: Rs. 150
Target Price: Rs. 173
Recommendation: ACCUMULATE

Stock Info

BSE Group	A
BSE Code	532210
NSE Symbol	CUB
Bloomberg	CUBK.IN
Reuters	CUBK.BO
BSE Sensex	28,330
NSE Nifty	8,778

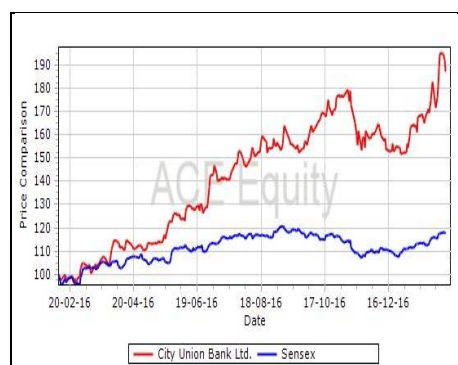
Market Info

Market Capital(Rs Cr)	9,047
Equity Capital(Rs Cr)	60.1
Avg. Trading Vol.	6,64,240
52 Wk High/ Low	169/89
Face Value	1

Shareholding Pattern (%) (Dec 2016)

Promoters	0.0
Domestic Institutions	11.9
Foreign Institutions	37.5
Public & Others	50.6

Price Chart:



Business Growth

City Union Bank reported sustained set of numbers for the quarter ended Dec, 2016. Advances for the bank stood at Rs 21,801 cr growing by 13% YoY though stood muted sequentially. Deposits for the quarter grew by 16% to Rs 29,986 cr owing to demonetization. CASA ratio improved to 23.9% against 18.8% in corresponding quarter of the previous year. C-D ratio stood at 72.7 vs. 74.6 YoY.

Asset Quality

Asset quality for the quarter deteriorated further. Gross NPA came in at 2.98 vs. 2.4 in corresponding quarter of previous year and 2.7 on sequential basis. Net NPA came in at 1.72 vs. 1.5 in corresponding quarter of previous year and 1.6 sequentially. PCR stood at 62% against 61% YoY and 60% sequentially. During 9M FY 2017, no account has been restructured, nor did the bank sell any assets to ARCs. Total restructured standard advances on the books stood at Rs 189 cr, 0.87% of the gross advances.

Profitability

Net interest income for the bank grew to Rs 307 cr rising by 21% YoY and 2% sequentially. Net interest margins for the bank expanded to 4.18 from 3.8 in corresponding quarter of previous year and stood flat against 4.2 sequentially. Cost to income ratio for the bank declined by 2.7% YoY to 39.2% on account of higher other income. Effective tax rate for the bank increased to 30% resulting in net profit growth of 12% YoY and 2.3% sequential basis.

The branches for the bank stood steady at 528 while ATM's increased at 1408 and number of employees dropped to 4709. Capital adequacy for the quarter stood at 14.9% of which Tier-1 stood at 14.4%.

Valuation

Bank has continued to report sustained performance however credit growth outlook in near term remains weak. We have valued the stock at its FY 18E P / ABV of 3.0 (x) and arrived at a fair value of Rs 173 per share. At CMP of Rs 150 the stock is trading at P/ABV of 2.6 (x) to its FY 18E ABV. We have "ACCUMULATE" rating on the stock.

SNAPSHOT

(Rs. Cr)	2015	2016	2017E	2018E
Net Interest Income	807	981	1188	1385
Operating Income	1211	1391	1702	1939
Profit After Tax	395	445	505	586
ROE	16.7	15.5	15.5	15.8
P / EPS (x)	14.6	12.7	17.9	15.5
P / ABV (x)	2.3	2.1	3.0	2.6

Source: - Company Data Ace Equity, Aриhant Research



Quarterly Result Snapshot					
Particulars	Q3 FY 17	Q3 FY 16	YoY	Q2 FY 17	QoQ
Interest earned	811	747	8.6%	791	2.6%
Interest expended	504	494		489	
NII	307	253	21.4%	301	1.9%
NIM	4.2	3.8	0.3%	4.2	0.0%
Non-interest income	143	103		104	
Operating Expenses	176	149		169	
Employee cost	80.3	63.3		76.9	
Cost-Income ratio	39.2	41.9	-2.7%	41.6	-2.4%
Operating Profit	274	207	32.2%	237	15.6%
Provisions	92	65		67	
PBT	182	142	27.8%	170	7.0%
Tax provisions	55	29		46	
Effective tax rate	30%	20%		27%	
Net profit	127	113	12.0%	124	2.3%
EPS	2.1	1.9		2.1	

Asset Quality (%)					
Particulars	Q3 FY 17	Q3 FY 16	YoY	Q2 FY 17	QoQ
GNPA	3.0	2.4	0.6%	2.7	0.3%
NNPA	1.7	1.5	0.2%	1.6	0.1%
PCR	62.0	61.0		60.0	

Quarterly Performance					
Particulars	Q3 FY 17	Q3 FY 16	YoY	Q2 FY 17	QoQ
Advances	21801	19374	13%	21972	-1%
Deposits	29986	25959	16%	28393	6%
CASA	7175	4872	47%	5880	22%
CASA %	23.9	18.8		21.0	
C-D ratio %	72.7	74.6		77.4	
Capital Adequacy %	14.9	14.6		14.8	

Source: - Company Data Ace Equity, Arihant Research



Income Statement				
(Rs Cr)	2015	2016	2017E	2018E
Interest Earned	2699	2944	3253	3592
Interest Expended	1891	1963	2065	2207
Net Interest Income	807	981	1188	1385
Other Income	404	410	514	554
Fee Income	43	45	49	55
Treasury Income	60	45	123	104
Operating Income	1211	1391	1702	1939
Operating Expenses	519	558	670	778
Employee Expenses	210	213	301	336
Profit before provision & tax	693	833	1032	1161
Provisions and Contingencies	183	231	311	324
Profit Before Tax	510	603	721	837
Provision for tax	126	158	216	251
Exp. Items	11	0	0	0
Profit After Tax	395	445	505	586

Balance Sheet				
(Rs Cr)	2015	2016	2017E	2018E
Sources of funds				
Share Capital	60	60	60	61
Total Reserves	2636	2992	3400	3879
Shareholder's Fund	2696	3052	3460	3940
Deposits	24075	27158	30572	34571
Borrowings	169	113	135	122
Other Liabilities & provisions	932	929	1255	1317
Total Liabilities	27871	31252	35422	39949
Application of Funds				
Cash & Bank	2537	2600	2655	3127
Investments	5871	6324	8222	8451
Advances	17966	21057	23163	26869
Fixed Assets	210	218	224	229
Other Assets	1288	1053	1158	1274
Total Assets	27871	31252	35422	39949

Ratios %				
	2015	2016	2017E	2018E
Asset Quality				
Gross NPA	1.9	2.4	3.1	3.0
Net NPA	1.3	1.5	1.7	1.6
PCR	57.5	60.0	61.0	62.0
Growth				
Advances Growth	11.6	17.2	10.0	16.0
Deposit growth	9.3	12.8	12.6	13.1
Net Profit Growth	13.8	12.5	13.5	16.1
Liquidity				
C-D Ratio	74.6	77.5	75.8	77.7
CASA	19.2	20.4	22.9	23.6
Capital Adequacy	16.6	15.6	15.9	15.8
Efficiency				
Cost Income Ratio	42.8	40.1	39.4	40.1
Operating Costs to Assets	1.9	1.8	1.9	1.9

	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	6.7
Cost of Deposits	8.0	7.5	7.2	6.8
NIM	3.2	3.5	3.7	3.8
Interest Spread	4.6	4.5	4.6	4.7
Profitability				
ROE	16.7	15.5	15.5	15.8
Earnings Per Share (Rs)	6.6	7.4	8.4	9.7
Dividend Per Share (Rs)	1.1	1.2	1.3	1.5
Adjusted Book Value (Rs)	41.3	45.6	50.6	57.8
Valuation				
P / EPS (x)	14.6	12.7	17.9	15.5
P / ABV (x)	2.3	2.1	3.0	2.6



Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

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%

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Website

www.arihantcapital.com

Email Id

research@arihantcapital.com

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.