



## Sustained Performance!

30<sup>th</sup> May, 2017

**CMP:** Rs. 165  
**Target Price:** Rs. 185  
**Recommendation:** ACCUMULATE

### Stock Info

|            |         |
|------------|---------|
| BSE Group  | A       |
| BSE Code   | 532210  |
| NSE Symbol | CUB     |
| Bloomberg  | CUBK.IN |
| Reuters    | CUBK.BO |
| BSE Sensex | 31,109  |
| NSE Nifty  | 9,605   |

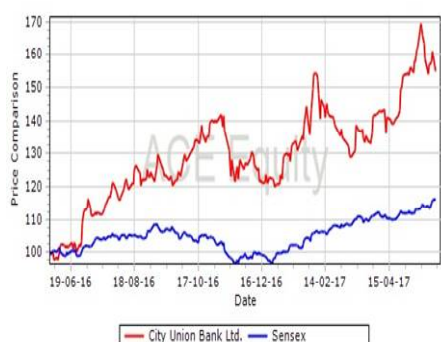
### Market Info

|                       |          |
|-----------------------|----------|
| Market Capital(Rs Cr) | 10,065   |
| Equity Capital(Rs Cr) | 60.1     |
| Avg. Trading Vol.     | 7,69,350 |
| 52 Wk High/ Low       | 184/103  |
| Face Value            | 1        |

### Shareholding Pattern (%) (March 2017)

|                       |      |
|-----------------------|------|
| Promoters             | 0.0  |
| Domestic Institutions | 13.0 |
| Foreign Institutions  | 36.7 |
| Public & Others       | 50.3 |

### Price Chart:



### Business Growth

City Union Bank reported sustained set of numbers for the quarter ended March, 2017. Advances for the bank stood at Rs 24,125 cr growing by 13% YoY and 11% sequentially. Deposits for the quarter grew by 11% YoY to Rs 30,116 cr though stood flat on QoQ basis. CASA ratio improved to 23.4% against 20.4% in corresponding quarter of the previous year. C-D ratio stood at 80 vs. 78.3 YoY.

### Asset Quality

Asset quality for the quarter deteriorated further. Gross NPA came in at 2.83 vs. 2.4 in corresponding quarter of previous year and 2.98 on sequential basis. Net NPA came in at 1.7 vs. 1.5 in corresponding quarter of previous year and 1.7 sequentially. PCR stood at 61% against 60% YoY and 62% sequentially. During FY 2017, no account has been restructured, nor did the bank sell any assets to ARCs on SR basis. Total restructured standard advances on the books stood at 0.56% as on Mar-17 of the gross advances.

### Profitability

Net interest income for the bank grew to Rs 311 cr rising by 17% YoY and 1% sequentially. Net interest margins for the bank expanded to 4.2 from 3.96 in corresponding quarter of previous year and stood flat against 4.16 sequentially. Cost to income ratio for the bank increased by 3.5% YoY to 43.2% on account of higher operating expenses. Effective tax rate for the bank decreased to 27% resulting in net profit growth of 14.8% YoY and 1.8% sequential basis.

The branches for the bank stood steady at 550 while ATM's increased at 1496 and number of employees dropped to 4,689. Capital adequacy for the quarter stood at 15.8% of which Tier-1 stood at 15.4%.

### Valuation

Bank has continued to report sustained performance however credit growth for this FY stood weak. We have valued the stock at its FY 19E P / ABV of 2.75 (x) and arrived at a fair value of Rs 185 per share. At CMP of Rs 165 the stock is trading at P/ABV of 2.5 (x) to its FY 19E ABV. We have "ACCUMULATE" rating on the stock.

### SNAPSHOT

| (Rs. Cr)            | 2015 | 2016 | 2017 | 2018E | 2019E |
|---------------------|------|------|------|-------|-------|
| Net Interest Income | 807  | 981  | 1188 | 1385  | 1634  |
| Operating Income    | 1211 | 1391 | 1702 | 1939  | 2312  |
| Profit After Tax    | 395  | 445  | 505  | 586   | 739   |
| ROE                 | 16.7 | 15.5 | 15.5 | 15.8  | 17.4  |
| P / EPS (x)         | 14.6 | 12.7 | 19.7 | 17.1  | 13.6  |
| P / ABV (x)         | 2.3  | 2.1  | 3.3  | 2.9   | 2.5   |

Source: - Company Data Ace Equity, Aриhant Research



| Quarterly Result Snapshot |          |          |       |          |       |
|---------------------------|----------|----------|-------|----------|-------|
| Particulars               | Q4 FY 17 | Q4 FY 16 | YoY   | Q3 FY 17 | QoQ   |
| Interest earned           | 800      | 756      | 5.8%  | 811      | -1.4% |
| Interest expended         | 489      | 492      |       | 504      |       |
| NII                       | 311      | 264      | 17.4% | 307      | 1.2%  |
| NIM                       | 4.2      | 4.0      | 0.2%  | 4.2      | 0.0%  |
| Non-interest income       | 126      | 107      |       | 143      |       |
| Operating Expenses        | 189      | 148      |       | 176      |       |
| Employee cost             | 77.8     | 52.7     |       | 80.3     |       |
| Cost-Income ratio         | 43.3     | 39.7     | 3.5%  | 39.2     | 4.1%  |
| Operating Profit          | 248      | 224      | 10.5% | 274      | -9.5% |
| Provisions                | 71       | 71       |       | 92       |       |
| PBT                       | 176      | 153      | 15.1% | 182      | -2.9% |
| Tax provisions            | 48       | 41       |       | 55       |       |
| Effective tax rate        | 27%      | 27%      |       | 30%      |       |
| Net profit                | 129      | 112      | 14.8% | 127      | 1.8%  |
| EPS                       | 2.1      | 1.9      |       | 2.1      |       |

| Asset Quality (%) |          |          |      |          |       |
|-------------------|----------|----------|------|----------|-------|
| Particulars       | Q4 FY 17 | Q4 FY 16 | YoY  | Q3 FY 17 | QoQ   |
| GNPA              | 2.8      | 2.4      | 0.4% | 3.0      | -0.2% |
| NNPA              | 1.7      | 1.5      | 0.2% | 1.7      | 0.0%  |
| PCR               | 61.0     | 60.0     |      | 62.0     |       |

| Quarterly Performance |          |          |     |          |     |
|-----------------------|----------|----------|-----|----------|-----|
| Particulars           | Q4 FY 17 | Q4 FY 16 | YoY | Q3 FY 17 | QoQ |
| Advances              | 24113    | 21253    | 13% | 21801    | 11% |
| Deposits              | 30116    | 27158    | 11% | 29986    | 0%  |
| CASA                  | 7039     | 5533     | 27% | 7175     | -2% |
| CASA %                | 23.4     | 20.4     |     | 23.9     |     |
| C-D ratio %           | 80.1     | 78.3     |     | 72.7     |     |
| Capital Adequacy %    | 15.8     | 15.6     |     | 14.9     |     |

Source: - Company Data Ace Equity, Arian Research



| Income Statement                         |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| (Rs Cr)                                  | 2016        | 2017E       | 2018E       | 2019E       |
| Interest Earned                          | 2944        | 3253        | 3592        | 4060        |
| Interest Expended                        | 1963        | 2065        | 2207        | 2426        |
| <b>Net Interest Income</b>               | <b>981</b>  | <b>1188</b> | <b>1385</b> | <b>1634</b> |
| Other Income                             | 410         | 514         | 554         | 678         |
| Fee Income                               | 45          | 49          | 55          | 63          |
| Treasury Income                          | 45          | 123         | 104         | 87          |
| <b>Operating Income</b>                  | <b>1391</b> | <b>1702</b> | <b>1939</b> | <b>2312</b> |
| Operating Expenses                       | 558         | 670         | 778         | 924         |
| Employee Expenses                        | 213         | 301         | 336         | 437         |
| <b>Profit before provision &amp; tax</b> | <b>833</b>  | <b>1032</b> | <b>1161</b> | <b>1388</b> |
| Provisions and Contingencies             | 231         | 311         | 324         | 333         |
| <b>Profit Before Tax</b>                 | <b>603</b>  | <b>721</b>  | <b>837</b>  | <b>1055</b> |
| Provision for tax                        | 158         | 216         | 251         | 317         |
| Exp. Items                               | 0           | 0           | 0           | 0           |
| <b>Profit After Tax</b>                  | <b>445</b>  | <b>505</b>  | <b>586</b>  | <b>739</b>  |

| Balance Sheet                  |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|
| (Rs Cr)                        | 2016         | 2017E        | 2018E        | 2019E        |
| <b>Sources of funds</b>        |              |              |              |              |
| Share Capital                  | 60           | 60           | 61           | 61           |
| Total Reserves                 | 2992         | 3400         | 3879         | 4483         |
| <b>Shareholder's Fund</b>      | <b>3052</b>  | <b>3460</b>  | <b>3940</b>  | <b>4544</b>  |
| Deposits                       | 27158        | 30572        | 34571        | 39774        |
| Borrowings                     | 113          | 135          | 122          | 115          |
| Other Liabilities & provisions | 929          | 1255         | 1317         | 1528         |
| <b>Total Liabilities</b>       | <b>31252</b> | <b>35422</b> | <b>39949</b> | <b>45961</b> |
| <b>Application of Funds</b>    |              |              |              |              |
| Cash & Bank                    | 2600         | 2655         | 3127         | 2903         |
| Investments                    | 6324         | 8222         | 8451         | 9698         |
| Advances                       | 21057        | 23163        | 26869        | 31705        |
| Fixed Assets                   | 218          | 224          | 229          | 254          |
| Other Assets                   | 1053         | 1158         | 1274         | 1401         |
| <b>Total Assets</b>            | <b>31252</b> | <b>35422</b> | <b>39949</b> | <b>45961</b> |

| Ratios %                  |      |       |       |       |
|---------------------------|------|-------|-------|-------|
|                           | 2016 | 2017E | 2018E | 2019E |
| <b>Asset Quality</b>      |      |       |       |       |
| Gross NPA                 | 2.4  | 3.1   | 3.0   | 2.8   |
| Net NPA                   | 1.5  | 1.7   | 1.6   | 1.4   |
| PCR                       | 60.0 | 61.0  | 62.0  | 62.0  |
| <b>Growth</b>             |      |       |       |       |
| Advances Growth           | 17.2 | 10.0  | 16.0  | 18.0  |
| Deposit growth            | 12.8 | 12.6  | 13.1  | 15.1  |
| Net Profit Growth         | 12.5 | 13.5  | 16.1  | 26.1  |
| <b>Liquidity</b>          |      |       |       |       |
| C-D Ratio                 | 77.5 | 75.8  | 77.7  | 79.7  |
| CASA                      | 20.4 | 22.9  | 23.6  | 24.3  |
| Capital Adequacy          | 15.6 | 15.9  | 15.8  | 15.5  |
| <b>Efficiency</b>         |      |       |       |       |
| Cost Income Ratio         | 40.1 | 39.4  | 40.1  | 40.0  |
| Operating Costs to Assets | 1.8  | 1.9   | 1.9   | 2.0   |

|                          | 2016 | 2017E | 2018E | 2019E |
|--------------------------|------|-------|-------|-------|
| <b>Spread Analysis</b>   |      |       |       |       |
| Yield on Advances        | 12.1 | 11.8  | 11.4  | 11.2  |
| Yield on Investments     | 8.9  | 8.5   | 8.3   | 8.0   |
| Cost of Funds            | 7.6  | 7.1   | 6.7   | 6.5   |
| Cost of Deposits         | 7.5  | 7.2   | 6.8   | 6.5   |
| NIM                      | 3.5  | 3.7   | 3.8   | 3.9   |
| Interest Spread          | 4.5  | 4.6   | 4.7   | 4.7   |
| <b>Profitability</b>     |      |       |       |       |
| ROE                      | 15.5 | 15.5  | 15.8  | 17.4  |
| Earnings Per Share (Rs)  | 7.4  | 8.4   | 9.7   | 12.1  |
| Dividend Per Share (Rs)  | 1.2  | 1.3   | 1.5   | 1.9   |
| Adjusted Book Value (Rs) | 45.6 | 50.6  | 57.8  | 67.2  |
| <b>Valuation</b>         |      |       |       |       |
| P / EPS (x)              | 12.7 | 17.9  | 15.5  | 12.4  |
| P / ABV (x)              | 2.1  | 3.0   | 2.6   | 2.2   |



**Arihant Research Desk**

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

**Head Office**

#1011, Solitaire Corporate park,  
Building No. 10, 1<sup>st</sup> 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**

|            | <b>Absolute Return</b> |
|------------|------------------------|
| 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](http://www.arihantcapital.com)

**Email Id**

[research@arihantcapital.com](mailto:research@arihantcapital.com)

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