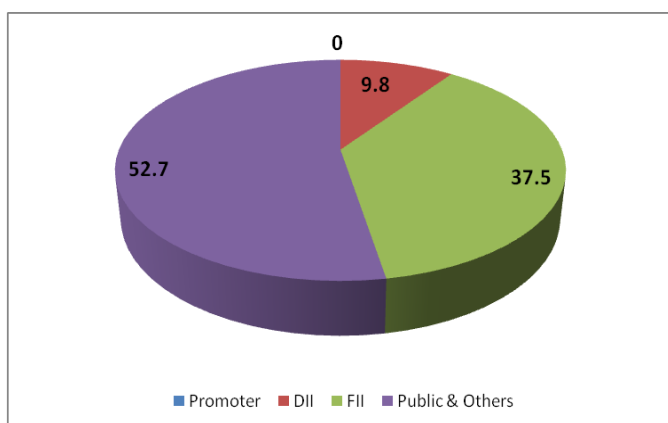


**City Union Bank Ltd.****Accumulate****Target Price: Rs 116**

Value Parameters -	
BSE Code	532210
NSE Symbol	CUB
CMP	Rs 97
Face Value	Rs 1
52 Week High/Low	106/77
Market Cap (Rs cr)	5,821
ABV (Rs) (FY17E)	58
P/ABV ratio (x) (FY17E)	1.5

**Shareholding Pattern % (Dec' 15)****Company Overview:**

City Union Bank Ltd, the oldest private sector bank in India, was founded on October 31, 1904 and is headquartered at Kumbakonam, Tamil Nadu, India. The bank in the beginning preferred the role of a regional bank. The first branch of the Bank was opened at Mannargudi on 24th January 1930. Presently the bank has pan India presence & operates through 500 branches, 1302 ATM & employee strength of 4,437. The bank has greater presence in Tamil Nadu about 50%. The main focus of the Bank is lending to MSME, Retail / Wholesale Trade with granular asset profile including providing short term and long term loans to agricultural sector.

**Investment Rationale**

- The bank has diversified loan book with greater exposure to the MSME sector. The small-ticket loans along with the shrinking financial health of the PSU banks are likely to lead the road ahead for the bank. We expect the bank to grow at a CAGR of 10.5% for FY15-17E.
- The bank stays strong on capital adequacy. The total capital ratio (Basel II) for the bank in FY 13 stood at 13.98 & grew to 16.59 in FY 15. CAR as per Basel III rose from 15.01 in FY 14 to 16.52 in FY 15. We expect the bank to stay strong on its capital adequacy for FY15-17E with a slight drop in FY16.
- The bank manages the costs efficiently. In FY 15 the cost to income ratio dropped down to 42.8 from 44.1 in FY 14. This year (9M) too, the ratio has dropped down to 40.23. This is likely due to the decelerating growth in branches & employee strength.
- The bank continues to keep its NIM healthy. Net interest income for the bank has been on a consistent rise with NIM above 3% for nearly a decade.

**Valuations**

We have valued the bank at its P/ABV multiple of 2.0 (x) to its FY 17E adjusted book value per share. We have arrived at a target of 116 per share at which the valuations look reasonable. At CMP of 97 the stock is trading at the FY17E P/EPS and P/ABV of 9.8 & 1.7 respectively and has "Accumulate" rating on the stock.



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**Arihant is Forbes Asia's '200 Best under a \$Billion' Company  
'Best Emerging Commodities Broker' awarded by UTV Bloomberg**

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