

## RETAIL EQUITY RESEARCH

## City Union Bank Ltd

Banking/Finance

BSE CODE:532210

NSE CODE: CUB

Bloomberg CODE: CUBK IN

SENSEX: 33,033

Reduce

Rating as per midcap

12months investment period

CMP Rs. 182

TARGET Rs. 168

RETURN 8% ↓

8<sup>th</sup> March 2018

## Asset quality to be under pressure...

City Union Bank Ltd (CUB) is a mid-sized private commercial bank having a network of 561 branches and 1,584 ATMs across India with a loan book size of ~Rs26,000cr.

- PAT grew 22% YoY, supported by 20% YoY growth in loan book.
- NIM increased by 25bps to 4.41% in Q3FY18 against 4.16% in Q3FY17.
- Deposit grew at nominal rate of 5% YoY in Q3FY18.
- Asset quality remained stable QoQ with GNPA and NNPA at 3.3% and 1.7% respectively.
- Strict NPA norms may affect the asset quality going forward.
- We reduce our valuation to 2.7x FY19E Adj.BV based on lower expected margins & recommend REDUCE rating with a revised target price of Rs168.

## Expecting lower NIMs in future...

Q3FY18 PAT grew at a healthy rate of 22% YoY, supported by 20% YoY growth in loan book. Margins increased by 25bps to 4.41% in Q3FY18 against 4.16% in Q3FY17 on account of lower cost of deposits. The cost of deposit for Q3 FY18 decreased by 43 bps to 6.24% from 6.67% compared with Q3 FY17 due to repricing of deposits at lower rate. Earnings were supported by robust 19%YoY growth in Net Interest Income. Uncertainty over asset quality on strict norms and reduced margins to decide the growth going forward.

## Concern over asset quality...

Asset quality almost remained stable QoQ with GNPA and NNPA at 3.3% and 1.7% respectively. Fresh slippages reduced to 2.0% of gross loan book compared to 2.3% QoQ. Nevertheless slippages are likely to increase over the next two years due to strict NPA norms and we expect credit costs to increase in the coming quarters. The bank have recovered Rs.139cr till Q3FY18 which is almost equal to the last year recovery figure of Rs.146cr for FY 2016-17.

## Loan growth to remain steady...

Loan book grew at a healthy 20% YoY in Q3FY18 supported by MSME, wholesale Traders and Agriculture portfolios. Deposit grew by 5% YoY in Q3FY18. CASA has come down by 3% to Rs.6,989cr from Rs.7,174cr compared to previous period mainly due to base effect of demonetization period of last year. Though we continue to factor healthy 19% CAGR in loan book over FY17-19E, increased cost of deposit going forward may hit on the margins.

## Valuations...

CUB is currently trading at 2.9x one year forward price to adjusted book value. Though earnings growth is stable and asset quality is improving, uncertainty over strict NPA norms and reduced margins going forward forced to downgrade our valuation to 2.7x FY19E adjusted Book value, and recommend REDUCE rating with a revised target price of Rs168.

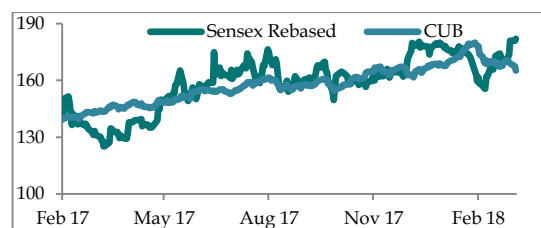
## Company Data

Market Cap (cr)	Rs. 11,471
Outstanding Shares (cr)	66
Free Float	100%
Dividend Yield	0.2%
52 week high	Rs209
52 week low	Rs125
6m average volume (cr)	0.08
Beta	1.03
Face value	Rs1

Shareholding( %)	Q1FY18	Q2FY18	Q3FY18
Promoters	0	0	0
FII's	34.5	34.2	35.6
MFs/Insti	15.0	15.6	15.0
Public	41.6	41.7	41.1
Others	8.9	8.5	8.3
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 Year
Absolute Return	10.6%	14.9%	33.4%
Absolute Sensex	-0.5%	5.5%	16.2%
Relative Return	11.1%	9.3%	17.2%

\*over or under performance to benchmark index



Standalone (Rs.cr)	FY17A	FY18E	FY19E
NII	1,199	1,343	1,481
Growth (%)	22%	12%	10%
NIM (%)	4.1	4.0	3.8
PAT Adj	503	569	657
Growth (%)	13%	13%	15%
Adj.EPS	7.6	8.7	10.0
Growth (%)	13%	13%	15.2%
P/E	23.9	21.2	18.4
P/B	3.4	3.0	2.6
Adj. P/B	3.8	3.4	2.9
ROE %	15.2	14.9	15.1

## Quarterly Financials

### Profit & Loss Account

(Rs cr)	Q3FY18	Q3FY17	YoY Growth %	Q2FY18	QoQ Growth %
Interest Income	865	811	6.7	841	2.9
Interest Expense	500	504	-0.8	486	2.9
Net Interest Income (NII)	365	307	+19	355	2.8
Fee and Other Income	122	143	-17	155	-27
<b>Total Income</b>	<b>487</b>	<b>450</b>	<b>8.2</b>	<b>510</b>	<b>-4.7</b>
Expenditure	190	176	8	190	0
Provision	86	92	-7	129	-33.3
<b>PBT</b>	<b>211</b>	<b>182</b>	<b>15.9</b>	<b>191</b>	<b>10.5</b>
Tax	56	55	1.8	46	21.8
<b>Reported PAT</b>	<b>155</b>	<b>127</b>	<b>22</b>	<b>145</b>	<b>6.9</b>
Adjustment	0	0	-	-	-
<b>Adj PAT</b>	<b>155</b>	<b>127</b>	<b>22</b>	<b>145</b>	<b>6.9</b>
Diluted EPS (Rs)	2.3	2.1	9.5	2.2	4.5

### Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Interest Income (NII)	1,326	1,490	1,343	1,481	+1.2	-0.6
NIM (%)	4.0	3.8	4.0	3.8	-	-
Fee and Other Income	588	642	570	643	-3.2	+0.2
Adj PAT	578	686	569	657	-1.6	-4.4
Diluted EPS (Rs)	8.8	10.5	8.7	10.0	-1.1	-5.0

## Standalone Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	2,699	2,944	3,174	3,551	4,065
Interest Expense	1,891	1,963	1,975	2,208	2,585
<b>Net Int. Income</b>	<b>807</b>	<b>981</b>	<b>1,199</b>	<b>1,343</b>	<b>1,481</b>
% Change	6%	22%	22%	12%	10%
Non Int. Income	404	410	484	570	643
<b>Operating Income</b>	<b>1,211</b>	<b>1,391</b>	<b>1,683</b>	<b>1,913</b>	<b>2,123</b>
% Change	16.6%	14.8%	21.0%	13.7%	11.0%
<b>Pre Prov. Profit</b>	<b>693</b>	<b>833</b>	<b>994</b>	<b>1,168</b>	<b>1,282</b>
Prov. & Conting.	183	231	301	377	370
<b>PBT</b>	<b>521</b>	<b>603</b>	<b>693</b>	<b>790</b>	<b>912</b>
% Change	26%	16%	15%	14%	15%
Tax	126	158	190	221	255
<i>Tax Rate (%)</i>	<i>24%</i>	<i>26%</i>	<i>27%</i>	<i>28%</i>	<i>28%</i>
<b>Reported PAT</b>	<b>395</b>	<b>445</b>	<b>503</b>	<b>569</b>	<b>657</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>384</b>	<b>445</b>	<b>503</b>	<b>569</b>	<b>657</b>
% change	10.7%	15.8%	13.1%	13.2%	15.4%
No. of shares (cr)	60	60	60	66	66
<b>EPS (Rs)</b>	<b>6.0</b>	<b>6.8</b>	<b>7.7</b>	<b>8.7</b>	<b>10.0</b>
% change	3.5%	12.6%	13.1%	13.2%	15.4%
DPS (Rs)	1.4	1.4	1.5	1.2	1.2
CEPS (Rs)	6.6	7.6	8.4	9.6	11.0

### Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	1,234	1,413	1,484	1,411	1,008
Loans & Advances	17,966	21,057	23,833	28,444	34,012
Investments	5,871	6,826	7,031	7,518	8,119
Gross Fixed Assets	434	493	543	613	684
Net Fixed Assets	210	218	215	220	218
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	2,591	2,290	2,707	3,129	3,741
<b>Total Assets</b>	<b>27,871</b>	<b>31,804</b>	<b>35,271</b>	<b>40,722</b>	<b>47,098</b>
Deposits	24,075	27,158	30,116	33,660	38,050
Debt Funds	169	665	531	1,680	2,833
Other Liabilities	932	929	1,054	1,236	1,412
Provisions	0	0	0	77	154
Equity Capital	60	60	60	66	66
Reserves & Surplus	2,636	2,992	3,510	4,002	4,582
Shareholder's Fund	2,696	3,052	3,570	4,068	4,648
<b>Total Liabilities</b>	<b>27,871</b>	<b>31,804</b>	<b>35,271</b>	<b>40,721</b>	<b>47,097</b>
<b>BVPS (Rs)</b>	<b>41.1</b>	<b>46.4</b>	<b>54.0</b>	<b>61.3</b>	<b>70.1</b>
% change	21.1%	12.9%	16.4%	13.6%	14.2%
<b>Adj. BVPS (Rs)</b>	<b>37.5</b>	<b>41.5</b>	<b>47.8</b>	<b>53.6</b>	<b>62.1</b>

### Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
<b>Profitability &amp; Return Ratios</b>					
Interest yield (%)	11.8	11.4	10.8	10.6%	10.4%
Cost of funds (%)	7.4	7.6	6.8	6.7%	6.8%
Net int. spread (%)	4.3	3.8	4.0	3.9%	3.6%
NIM (%)	3.5	3.8	4.1	4.0	3.8
ROE (%)	16.3	15.5	15.2	14.9	15.1
ROA (%)	1.5	1.5	1.5	1.5	1.5
Cost to Income (%)	43	40	41	39	40
CASA (%)	19	20	23	26	28
<b>Asset Quality</b>					
GNPA (%)	1.86	2.41	2.86	3.09	2.65
NNPA (%)	1.29	1.52	1.71	1.79	1.54
Credit cost (%)	0.5	0.8	0.9	0.9	0.8
<b>Capital</b>					
Cap adeq ratio (%)	16.5	15.6	15.8	15.0	14.5
<b>Valuation ratios</b>					
P/E (x)	31.1	26.9	23.9	21.2	18.4
P/BV (x)	4.4	3.9	3.4	3.0	2.6
P/ABV (x)	4.8	4.4	3.8	3.4	2.9



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Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Fax: +91 484-2979695, Website: [geojit.com](http://geojit.com). For investor queries: [customer-care@geojit.com](mailto:customer-care@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

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