

City Union Bank

Credit growth guidance remains intact

PBT up 6% YoY; PBT (adjusted for treasury gains) down 21% YoY

City Union Bank (CUBK IN) posted net profit of INR 1.86bn, up 15% YoY, which was in line with our estimates. Key observations from the results include: 1) PBT was up 6.3% YoY; however, PBT (adjusted for treasury gains and MTM write-back) would have been down 20.6% YoY and 24.6% QoQ, 2) the coverage ratio improved 479bp QoQ as the bank made a conservative decision to utilize treasury gains and MTM write-back on investments toward NPA provisions, which we believe is a sensible move, 3) margin fell 29bp QoQ, led by a double whammy of an 13bp rise in cost of funds and an 13bp fall in yield on funds, and 4) slippages were elevated as a chunky exposure of INR 500mn to an educational institute slipped, which also resulted in a 39bp QoQ rise in gross NPA to 3.34%. Management maintains credit growth guidance of 17-18% for FY20.

Elevated slippages as account with INR 500mn exposure slips

Gross delinquency was at INR 2.0bn, among which INR 500mn was towards an educational institute while the remaining accounts were spread across sectors with ticket size of less than INR 100mn. Management does not expect any more chunky other slippages in FY20; therefore, it maintains gross slippage ratio guidance of 175-200bp for FY20. Hence, we factor in credit cost at 96bp and coverage ratio of 44.4% after considering gross slippages of 201bp for FY20E.

Valuation: change to Buy with a revised TP of INR 237

CUBK is well positioned to expand its credit book at a CAGR of 19% over FY19-21E coupled with a slight moderation in margin due to slow growth in CASA. On the asset quality, it is expected to post gross slippages and credit cost, well within guidance. As a result, we expect a ROA of 158bp in FY20E vs its past 10-year average of 155bp. We change our rating to **Buy** from Accumulate with a revised TP of INR 237 from INR 244 on 3.2x (from 3.4x) one-year forward P/ABV.

Rating: Buy

Target Price: INR 237

Upside: 22%

CMP: INR 194 (as on 8 August 2019)

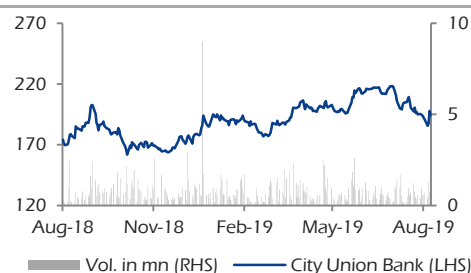
Key data

Bloomberg/Reuters Code	CUBK IN/CTBK.BO
Current/Dil. Shares O/S (mn)	734/734
Mkt Cap (INR bn/USD mn)	143/2,020
Daily Vol. (3M NSE Avg.)	711,683
Face Value (INR)	1

1 USD = INR 70.6

Note: *as on 8 August 2019; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Promoter	-	-	-	-
Institutional Investors	51.8	50.8	51.1	52.5
Other Investors	8.3	9.6	9.5	8.9
General Public	39.9	39.6	39.4	38.7

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	(1.2)	2.1	(1.5)
Bankex Index	(1.7)	4.1	0.7
City Union Bank	(1.6)	4.1	8.9

Source: Bloomberg

YE Mar (INR mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Q1FY20E	Variance (%)
Nil	4,169	3,748	11.2	4,206	(0.9)	4,301	(3.1)
CXB	796	759	4.9	777	2.4	854	(6.8)
Treasury Income	446	193	131.1	256	74.2	225	98.2
Total Non-interest Income	1,633	1,291	26.5	1,469	11.2	1,452	12.5
Total Net Income	5,802	5,039	15.1	5,675	2.2	5,753	0.9
Payments to / Prov. for employees	(1,004)	(873)	15.0	(914)	9.8	(985)	1.9
Other operating expenses	(1,284)	(1,172)	9.6	(1,383)	(7.2)	(1,359)	(5.5)
Total Operating Exp.	(2,288)	(2,045)	11.9	(2,297)	(0.4)	(2,345)	(2.4)
Operating Profit	3,514	2,994	17.4	3,378	4.0	3,408	3.1
Provisions for NPAs	(1,403)	(650)	115.8	(810)	73.2	(775)	81.0
Total Provisions (Excl. Tax Prov.)	(1,158)	(778)	48.9	(907)	27.7	(790)	46.5
PBT	2,356	2,216	6.3	2,471	(4.6)	2,618	(10.0)
Tax Provision	(500)	(600)	(16.7)	(720)	(30.6)	(763)	(34.4)
Net Profit	1,856	1,616	14.8	1,751	6.0	1,855	0.1

Key Financials

YE	Nil	YoY	PoPP	YoY	NP	YoY	FDEPS	YoY	RoAE	RoAA	P/E	P/ABV
March	(INR mn)	(%)	(INR mn)	(%)	(INR mn)	(%)	(INR)	(%)	(%)	(%)	(x)	(x)
FY18	14,303	16.2	12,078	17.7	5,920	15.1	9.2	9	15.3	1.57	21.2	3.7
FY19	16,115	11.2	12,435	2.9	6,864	13.7	9.3	2	15.2	1.61	20.8	3.4
FY20E	18,486	12.8	13,906	10.6	7,727	11.2	10.5	11	14.8	1.58	18.5	2.9
FY21E	16,115	(14.7)	16,265	14.5	9,475	18.5	12.9	18	15.7	1.68	15.1	2.5

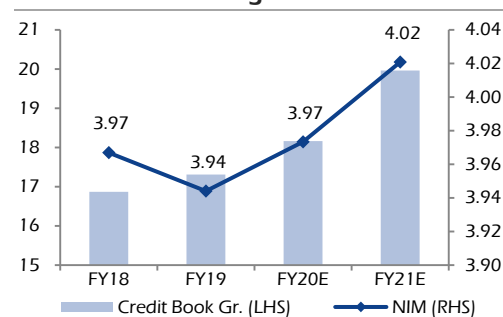
Note: pricing as on 8 August 2019; Source: Company, Elara Securities Estimate

Financials (YE March)

Income Statement (INR mn)	FY18	FY19	FY20E	FY21E
Net Interest Income	14,303	16,115	18,486	21,650
CXB	495	545	611	678
Add: Other income	4,826	4,598	4,930	5,404
Total Net Income	19,624	21,259	24,026	27,733
Less: Operating expenses	(7,546)	(8,824)	(10,120)	(11,467)
Pre provision operating profit	12,078	12,435	13,906	16,265
Loan loss Provisions	(3,030)	(2,700)	(3,450)	(2,980)
Less: provisions	(1,148)	(451)	(75)	(513)
Profit before tax	7,900	9,284	10,381	12,772
Tax	(1,980)	(2,420)	(2,654)	(3,297)
Reported Net profit	5,920	6,864	7,727	9,475
Balance Sheet (INR mn)	FY18	FY19	FY20E	FY21E
Net worth	41,632	48,408	55,745	64,742
Deposits	328,526	384,479	445,996	515,126
CASA %	24.1	25.2	26.0	26.0
Borrowings	17,359	4,809	5,579	6,471
Other liabilities	11,855	14,893	17,202	19,825
Total liabilities	399,372	452,589	524,522	606,164
Cash & Bank Balances	26,364	29,633	31,870	35,747
Advances	278,528	326,733	386,079	463,145
Investments	78,791	77,122	79,050	81,026
Fixed Assets	2,231	2,500	2,855	3,260
Other Assets	13,458	16,600	24,668	22,985
Total assets	399,372	452,589	524,522	606,164
Ratios	FY18	FY19	FY20E	FY21E
Per Share data & Valuation Ratios				
EPS – Diluted (INR)	9.2	9.3	10.5	12.9
DPS (INR)	0.3	0.5	0.5	0.6
Book Value per share (BVPS) (INR)	62.6	65.9	75.9	88.1
Adjusted BVPS (INR)	57.3	60.0	69.1	80.0
ROAA (%)	1.57	1.61	1.58	1.68
ROAE (%)	15.3	15.2	14.8	15.7
Price / Earnings (x)	21.2	20.8	18.5	15.1
Price / Book (x)	3.1	2.9	2.6	2.2
Price / Adjusted BV (x)	3.4	3.2	2.8	2.4
Dividend Yield (%)	0.2	0.3	0.2	0.3
Yields and Costs (%)				
Yield on Advances	11.0	10.5	10.34	10.32
Yield on Earning Assets	9.4	9.2	9.19	9.27
Cost of Deposits	6.1	5.9	5.82	5.80
Cost of Funds	6.0	5.9	5.77	5.81
NIM	3.97	3.94	3.97	4.02
Asset Quality				
Gross NPA (INR mn)	8,566	9,771	12,041	14,511
Gross NPA (%)	3.0	3.0	3.1	3.1
Net NPA (INR mn)	4,748	5,915	6,690	8,030
Net NPA (%)	1.7	1.8	1.7	1.7
NPA Coverage ratio (%)	44.6	39.5	44.4	44.7
Gross Slippages (%)	2.20	2.06	2.01	1.88
Credit Cost (%)	1.16	0.88	0.96	0.69
Capital Adequacy (%)				
Tier I	15.8	15.0	14.7	14.5
CAR	16.2	15.6	15.1	14.9
Operational Growth Rates & Ratios (%)				
Growth in Credit Book (%)	16.9	17.3	18.2	20.0
Growth in Deposits (%)	9.1	17.0	16.0	15.5
Credit / Deposit Ratio	84.8	85.0	86.6	89.9
Cost-Income ratio	38.5	41.5	42.1	41.3
Operating Cost / Avr. Assets	2.0	2.1	2.1	2.0
Fee Income / Avr. Assets	0.1	0.1	0.1	0.1
Stated prov/Avr. Assets (Excl. Tax Prov.)	1.1	0.7	0.7	0.6

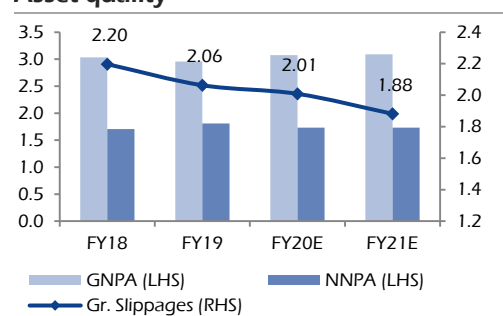
Note: pricing as on 8 August 2019; Source: Company, Elara Securities Estimate

NIM vs Credit book growth trend



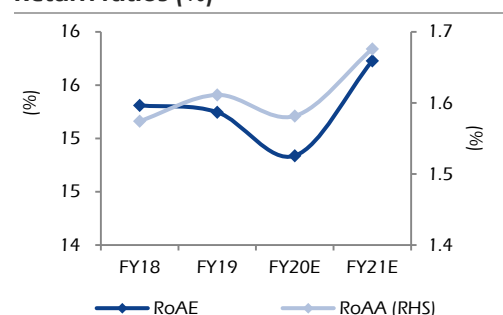
Source: Company, Elara Securities Estimate

Asset quality



Source: Company, Elara Securities Estimate

Return ratios (%)



Source: Company, Elara Securities Estimate

Margin contracts as CASA tapers off to 6-quarter low

Margin fell 29bp QoQ to 411bp as the CASA ratio for the bank slipped 178bp QoQ and 50bp YoY. This resulted in a 13bp QoQ rise in cost of funds while credit yield fell 10bp QoQ since QoQ credit to high yielding sectors like personal loans fell sharply on a QoQ basis.

Moreover, management says CASA is not a top priority for the bank, and it will not mind a lower CASA ratio as long as margin is well within its range; hence, we expect CASA to be around 26% until FY21E and marginal improvement of 3bp in margin for FY20E.

Conference call takeaways
Asset quality

- Slippages ratio guidance of 1.75-2.00% for FY20
- The paper loan account is in good condition as on now; hence, the bank has yet to make provisions
- SMA II number is not disclosed by management

Slippages

- Of total slippages of INR 2bn, an education institute loan account constituted INR 500mn. The rest are granular of less than INR 100mn across multiple companies from different industries
- Bulk of the agri loan is secured against gold; hence, the bank does not have major concerns on its agri portfolio
- Outstanding security receipts stands at INR 3.13bn
- The bank has yet to sell any assets to ARC during the quarter
- Recovery in NPA is taking place at a slower pace than anticipated by management

Treasury gains

- The bank keeps AFS with shorter duration, which is mostly T-bills
- Last year, there were multiple OMO, which provided opportunity to book gains from the HTM category
- The bank is currently holding sizeable gains on its investment book
- Favorable yield movement aided in treasury gains during the quarter

Pricing power:

- The bank maintains a credit yield in the range of 10.75-11.00%
- Credit yield is expected to fall; however, cost of deposits also should climb down, resulting in stable NIM. Increase in the CD ratio would aid the bank to increase NIM
- NIM should be around same with +/- 10-20bp for FY20; also, NIM would not breach the 400bp mark. The bank also can raise LDR from the current level
- If the declining interest rate scenario elongates, the bank may look to change its strategy
- Interest reversal in Q1FY20 as INR 17.5mn (from educational institute loan account)

Competition on deposit mobilization

- CASA is not the top priority for the bank; hence, a significant increase in CASA is not expected. Management adds CASA does not fit into the bank's scheme of things
- The bank has surplus cash of INR 30bn
- In terms of term deposits, the rollover rate is 80-90%

Establishment expenses

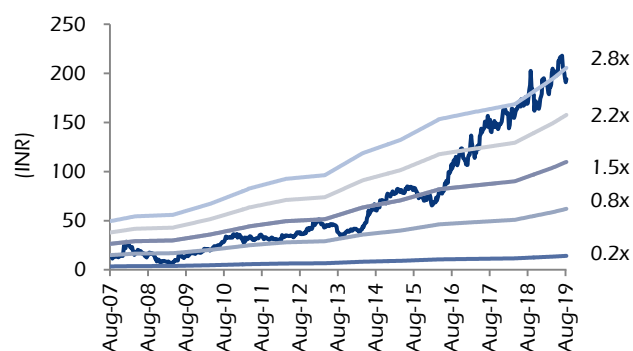
- Pension payments did not get affected due to movement in G-SEC yields since they are based on defined contribution plan

Exhibit 1: Valuation assumptions (H1FY20E)

Risk free rate (%)	7.0
Beta	0.9
Market Equity Risk Premium (%)	5.1
Cost of equity (%)	12.1
Terminal Growth (%)	4.0
Common equity (mn)	735
CMP (INR)	194
P/ABV (x)	3.2
CUB IN fundamental value (INR)	237
Target price (INR)	237
Upside (%)	22.0

Note: pricing as on 8 August 2019; Source: Elara Securities Estimate

Exhibit 2: One-year forward P/ABV in the range of 2.5-3.2x over the past year



Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 3: One-year forward P/ABV of 2.7x



Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 4: Change in estimates

(INR mn)	Previous		Revised		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	24,205	28,120	24,026	27,733	(0.7)	(1.4)
PAT	8,067	9,878	7,727	9,475	(4.2)	(4.1)
Target price (INR)		244		237		(2.8)

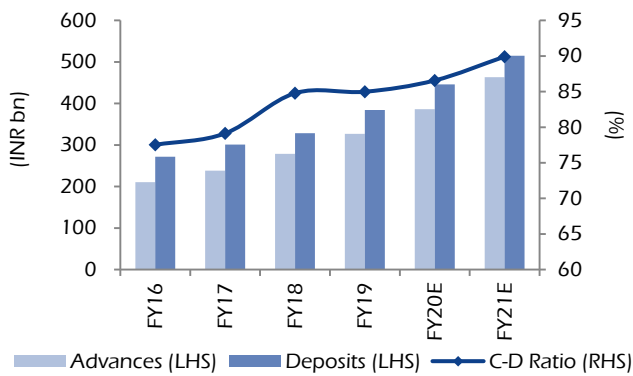
Source: Elara Securities Estimate

Exhibit 5: DuPont analysis

(%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total interest income earned	10.6	10.2	10.0	9.5	9.0	8.8	8.8	8.8
Other income	1.2	1.5	1.4	1.5	1.4	1.2	1.1	1.1
Commission, Exchange & Brokerage	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Profit on sale of investment	0.1	0.2	0.2	0.3	0.2	0.1	0.1	0.1
Other fee income	0.9	1.1	1.1	1.0	1.0	1.0	0.9	0.9
Total interest expenses	(7.4)	(7.2)	(6.6)	(5.9)	(5.2)	(5.1)	(5.0)	(5.0)
NII	3.2	3.1	3.3	3.6	3.8	3.8	3.8	3.8
Pay to / Prov for Employees	(0.8)	(0.8)	(0.7)	(0.9)	(0.8)	(0.9)	(0.9)	(0.9)
Op. Exps & Admin Exps	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Total Oper. Exps.	(1.9)	(2.0)	(1.9)	(2.1)	(2.0)	(2.1)	(2.1)	(2.1)
Provisions & Cont and Taxes	(1.0)	(1.2)	(1.3)	(1.5)	(1.6)	(1.3)	(1.3)	(1.3)
Prov for NPAs	(0.6)	(0.6)	(0.7)	(0.8)	(0.8)	(0.6)	(0.7)	(0.7)
Prov for income tax	(0.3)	(0.5)	(0.5)	(0.6)	(0.5)	(0.6)	(0.5)	(0.5)
Other Provisions	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.1)	(0.0)	(0.0)
Net Profit (RoAA)	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6
RoAE	18.9	16.3	15.5	15.2	15.3	15.2	14.8	14.8

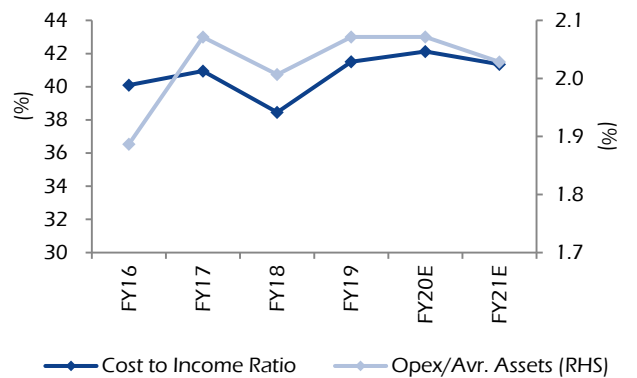
Source: Company, Elara Securities Estimate

Exhibit 6: Business mix



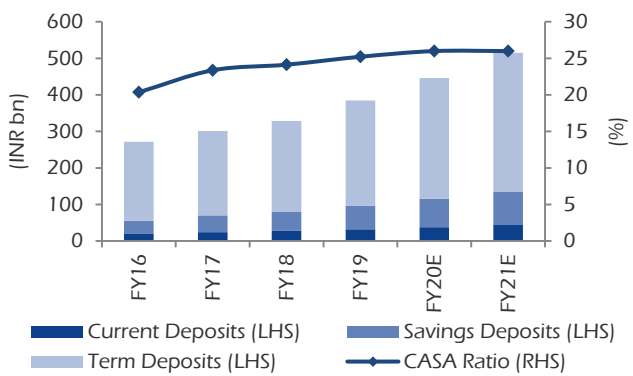
Source: Company, Elara Securities Estimate

Exhibit 10: Operating cost structure



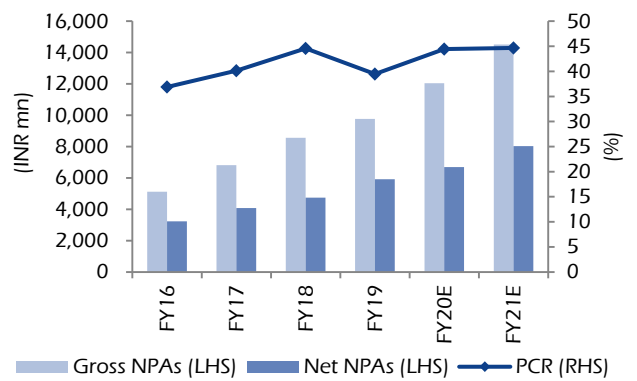
Source: Company, Elara Securities Estimate

Exhibit 7: Deposit profile



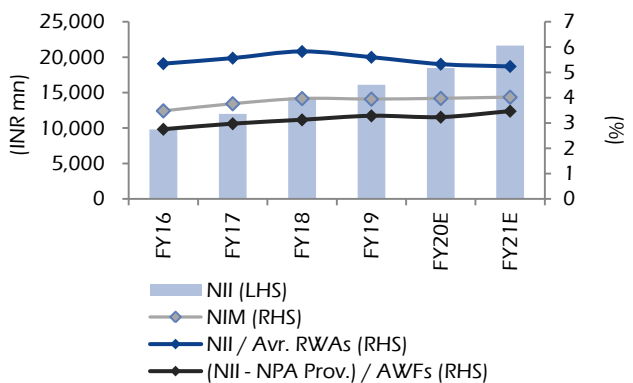
Source: Company, Elara Securities Estimate

Exhibit 11: GNPA & PCR



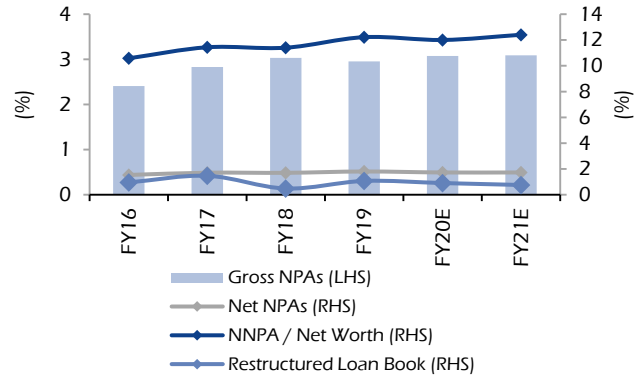
Source: Company, Elara Securities Estimate

Exhibit 8: NII & NIM



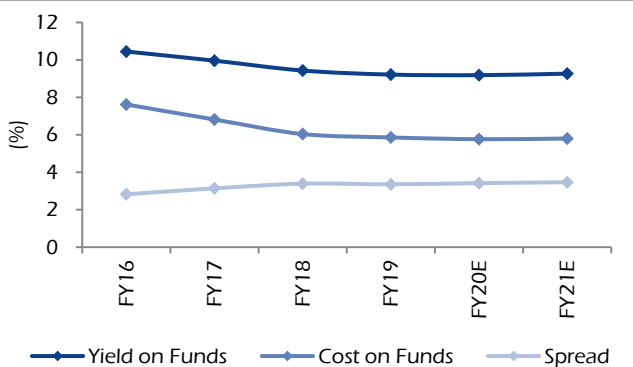
Source: Company, Elara Securities Estimate

Exhibit 12: NPA & restructured loan book



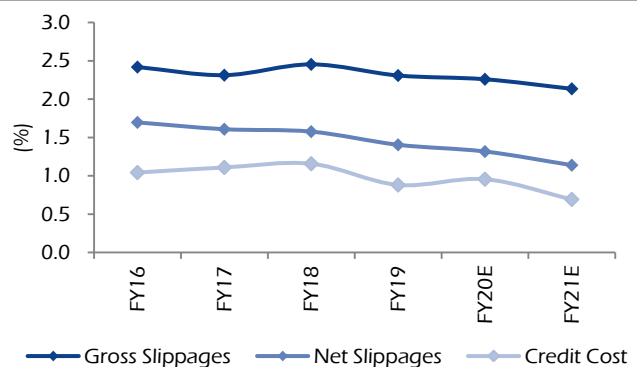
Source: Company, Elara Securities Estimate

Exhibit 9: Asset yield, funding cost & spread



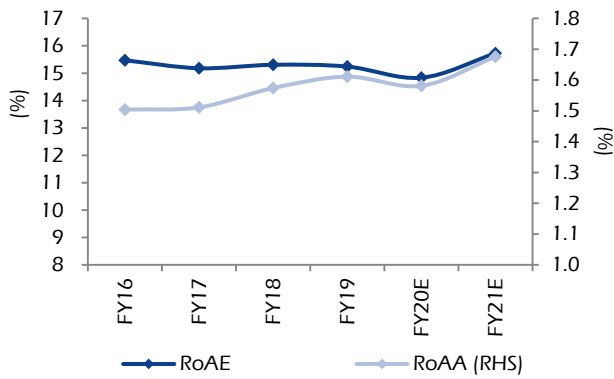
Source: Company, Elara Securities Estimate

Exhibit 13: Slippages ratio & credit cost



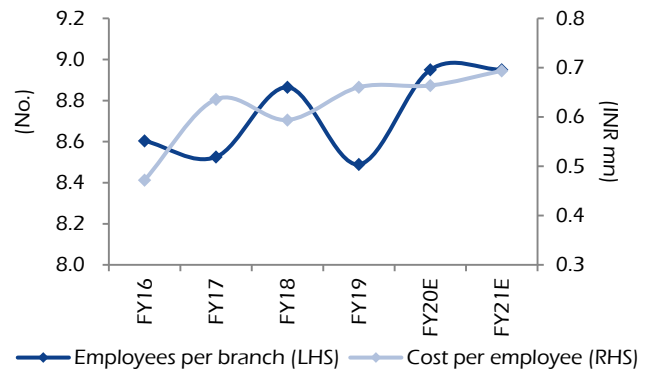
Source: Company, Elara Securities Estimate

Exhibit 14: Return ratios (%)



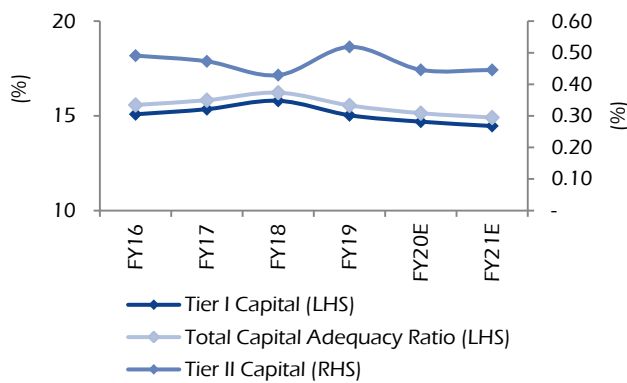
Source: Company, Elara Securities Estimate

Exhibit 16: Employees' efficiency



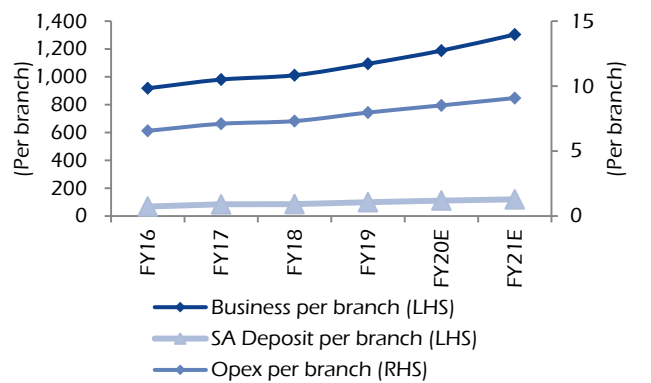
Source: Company, Elara Securities Estimate

Exhibit 15: Capital adequacy (%)



Source: Company, Elara Securities Estimate

Exhibit 17: Branch operational efficiency



Source: Company, Elara Securities Estimate

Exhibit 18: Income statement

YE Mar (INR mn)	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19	YoY (%)	QoQ (%)
Interest Inc. on Advances	8,686	8,383	8,197	7,771	7,425	17.0	3.6
Interest Inc. on Investments	1,411	1,349	1,383	1,415	1,389	1.6	4.6
Others	195	113	87	78	81	141.7	72.5
Total Interest Inc.	10,292	9,846	9,666	9,265	8,895	15.7	4.5
Interest Expended	(6,124)	(5,640)	(5,485)	(5,285)	(5,147)	19.0	8.6
NII	4,169	4,206	4,181	3,980	3,748	11.2	-0.9
Total Non-interest Income	1,633	1,469	1,198	1,186	1,291	26.5	11.2
Total Net Income	5,802	5,675	5,379	5,166	5,039	15.1	2.2
Payments to / Prov. for employees	(1,004)	(914)	(927)	(930)	(873)	15.0	9.8
Other operating expenses	(1,284)	(1,383)	(1,383)	(1,276)	(1,172)	9.6	-7.2
Total Operating Exp.	(2,288)	(2,297)	(2,311)	(2,206)	(2,045)	11.9	-0.4
Operating Profit	3,514	3,378	3,069	2,959	2,994	17.4	4.0
Total Provisions	(1,158)	(907)	(788)	(680)	(778)	48.9	27.7
PBT	2,356	2,471	2,281	2,280	2,216	6.3	-4.6
Tax Provision	(500)	(720)	(500)	(600)	(600)	-16.7	-30.6
Net Profit	1,856	1,751	1,781	1,680	1,616	14.8	6.0
EPS (INR)	2.53	2.38	2.43	2.30	2.43	4.0	6.0

Source: Company, Elara Securities Research

Exhibit 19: Key ratios

(%)	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19	YoY (bps)	QoQ (bps)
Trading gains/PBT (%)	18.9	10.4	9.1	9.3	8.7	1,022	857
NIM	4.1	4.4	4.4	4.3	4.2	(13)	(29)
CAR	15.7	15.6	14.8	15.1	16.1	(38)	13
Tier I	15.2	15.0	14.4	14.7	15.6	(47)	14
ROA	1.6	1.6	1.7	1.6	1.6	3	3
CD Ratio	82.5	86.0	86.3	86.2	85.1	(263)	(352)

Source: Company, Elara Securities Research

Exhibit 20: Asset quality

(INR mn)	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19	YoY (%)	QoQ (%)
GNPA	10,762	9,771	8,919	8,479	8,511	26.4	10.1
NNPA	6,000	5,915	5,276	4,978	4,735	26.7	1.4
						YoY (bps)	QoQ (bps)
GNPA (in %)	3.3	3.0	2.9	2.9	3.0	32	39
NNPA (in %)	1.9	1.8	1.7	1.7	1.7	19	8
PCR (%) (Excl. Technical Write-offs)	44.3	39.5	40.8	41.3	44.4	(12)	479

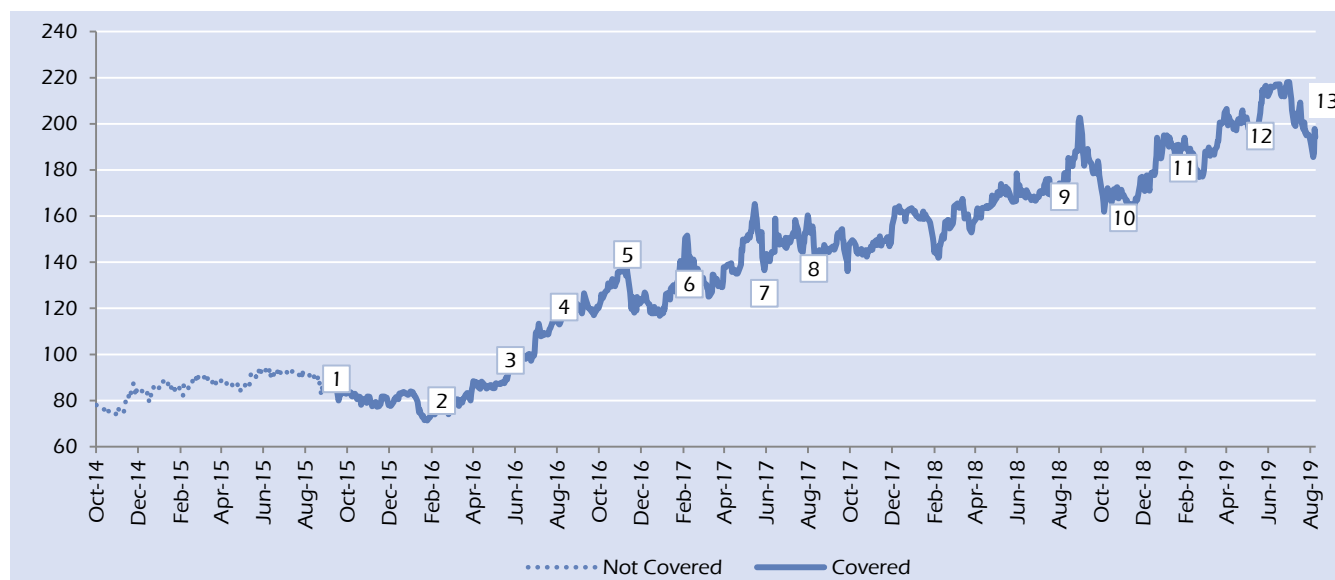
Source: Company, Elara Securities Research

Exhibit 21: Balance sheet details

(INR mn)	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19	YoY (%)	QoQ (%)
Net Advances	322,295	326,733	302,726	294,251	282,151	14.2	(1.4)
Savings Deposits	63,081	64,837	58,988	54,489	52,805	19.5	(2.7)
Current Deposits	28,532	32,145	25,709	27,150	27,579	3.5	(11.2)
CASA Deposits	91,613	96,982	84,697	81,639	80,384	14.0	(5.5)
Term Deposits	299,155	287,497	270,343	263,701	255,590	17.0	4.1
Total Deposits	390,768	384,479	355,040	345,340	335,974	16.3	1.6
CASA (%)	23.4	25.2	23.9	23.6	23.9		

Source: Company, Elara Securities Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	15-Sep-2015	Sell	INR 80	INR 93
2	15-Feb-2016	Sell	INR 78	INR 85
3	25-May-2016	Sell	INR 80	INR 104
4	11-Aug-2016	Sell	INR 88	INR 129
5	11-Nov-2016	Sell	INR 93	INR 149
6	9-Feb-2017	Accumulate	INR 174	INR 150
7	29-May-2017	Accumulate	INR 194	INR 165
8	9-Aug-2017	Accumulate	INR 190	INR 162
9	9-Aug-2018	Accumulate	INR 207	INR 179
10	2-Nov-2018	Buy	INR 212	INR 169
11	28-Jan-2019	Buy	INR 257	INR 191
12	20-May-2019	Accumulate	INR 244	INR 205
13	8-Aug-2019	Buy	INR 237	INR 194

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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