

CITY UNION BANK | Banking

Strong capital buffer; ECLGS to support credit growth

LKP

Price Analysis:

City Union Bank (CUB) reported 4QFY21 earnings in line with our expectations and the key pointers are a) relatively healthy business growth with net advance and deposit growth of 0.7% QoQ and 2.9% QoQ respectively, b) sequentially higher C/I ratio of 50.1% v/s 38.9% in 4QFY21 and c) asset quality improvement with GNPA/NNPA ratio of 5.11%/2.97% against pro-forma GNPA/NNPA of 5.41%/3.4% in the previous quarter, d) Sequential NII de-growth (-12.4% QoQ) with 44bps decline in NIMs to 3.72% because of interest reversal on NPA and overdue accounts. Furthermore, the bank's PAT de-grew 18.2% sequentially with higher provisioning expenses (₹2.4bn v/s ₹2.2bn in the previous quarter). However, the restructuring book (4.99% of book) stood in line with management guidance. We estimate a ROA/ROE of ~1.2%/10% for FY23E. We recommend BUY with target price of ₹205 (upside of 18%).

Gazing the core:

Stress to absorb in restructuring book: The bank has reported pro-forma NNPA at 2.97% as on 4QFY21 v/s 3.4% in 3QFY21 owing to unrecognised slippages of ₹11.1bn. The restructuring book as on 4QFY21 stood in line with management guidance at 5% of book. The bank has used covid provision of ₹3.9bn in 4QFY21, the total contingent provisions stood at 0.7% of loan book. CUB may witness certain hiccups in restructuring book. Factoring higher restructuring and moderate slippages, we estimate ROA normalization by FY22E at 1.2%.

Credit growth driven by ECLGS: The bank's credit growth remained subdued at 6.6% YoY and 0.7% QoQ due to a cautious run down in its corporate book and slight improvement in the Agriculture book. However, growth in Gold loans remains strong, while robust ECLGS disbursement of ₹19.1bn resulted in higher SME loan growth. CUB expects overall growth for FY21 to be in mid-to-high single digit. Retail loans, Agriculture loans, MSME loans and large corporate book forms 47.9%, 11.5%, 35.4% and 5.2% of its loan book.

Strong deposit traction: Deposit growth improved during the quarter to 9% YoY and 3% sequentially but lower compared to pre-covid levels as the bank intends to maintain LDR on account of lower credit demand. NIM decreased 44bps sequentially to 3.72% because of interest reversal on NPA accounts. We expect it to emerge strong in next few quarters but see some softness in near term due to interest reversal on NPAs from restructuring book.

Adequate Capital Buffer: As on 4QFY21, the bank's CRAR stood at 19.52% with core equity capital of 18.45% of RWA. We believe the capital buffer to be adequate to maintain the growth momentum and expect no equity dilution soon. The capital drag by NPAs from restructuring will be a key monitorable.

Outlook and Valuation:

We expect the bank's loan book to grow cautiously at CAGR of ~9% over FY21-23E, led by MSME and retail book growth. In our opinion, the bank's credit cost will normalise by FY22E and estimate return ratio ROA/ROE of 1.2% and 10% in FY23E. We value the standalone entity at 2.1x FY23E BVPS (₹98) to arrive at a target price of ₹205. We recommend BUY on CUB with a potential upside of 18%.

Rating	Buy
Current Market Price (₹)	174
12 M Price Target (₹)	205
Potential upside (%)	18

Stock Data

FV (₹) :	1
Total Market Cap (₹ bn) :	129
Free Float Market Cap (₹ bn) :	129
52-Week High / Low (₹) :	116 / 200
2-Year High / Low (₹) :	110 / 249
1 Year Avg. Dly Traded Volume (in lakh)	27
BSE Code / NSE Symbol	532210 / CUB
Bloomberg :	CUBK:IN

Shareholding Pattern (%)

	Mar-21	Dec-20	Sep-20	Jun-20
FPIs	18.00	18.65	18.67	21.65
MFs	28.97	27.61	26.78	25.35
Bodies Corporate	3.20	3.58	3.72	3.68
Insurance	9.52	7.03	7.02	6.98
Others	40.31	43.13	43.81	42.34

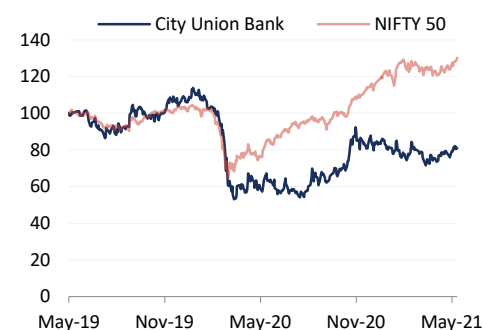
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
City Union Bank	3.0%	5.1%	-6.6%	34.3%
Nifty 50	3.8%	6.2%	19.0%	62.7%

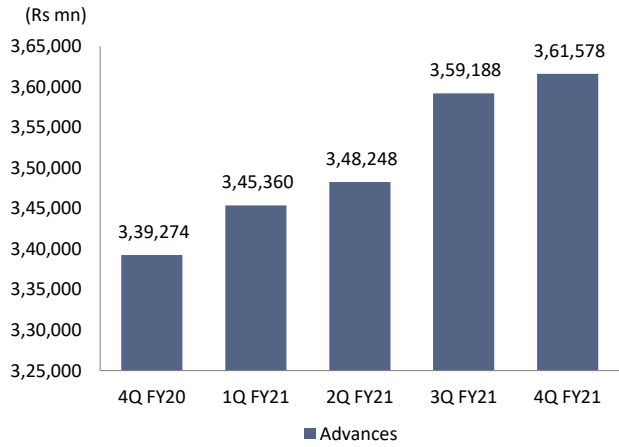
* To date / current date : May 28, 2021

City Union Bank vs Nifty 50

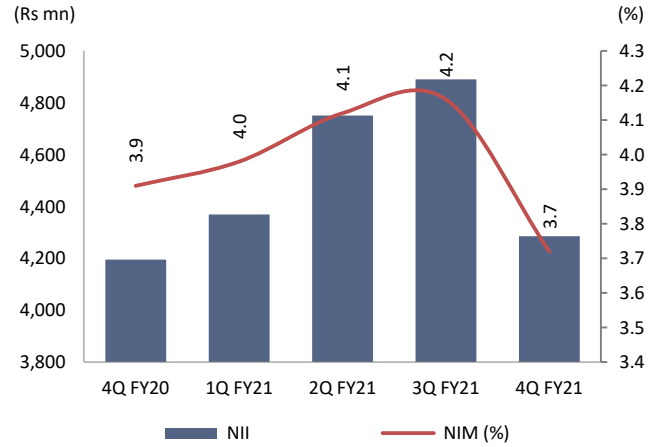


Quarterly story in charts

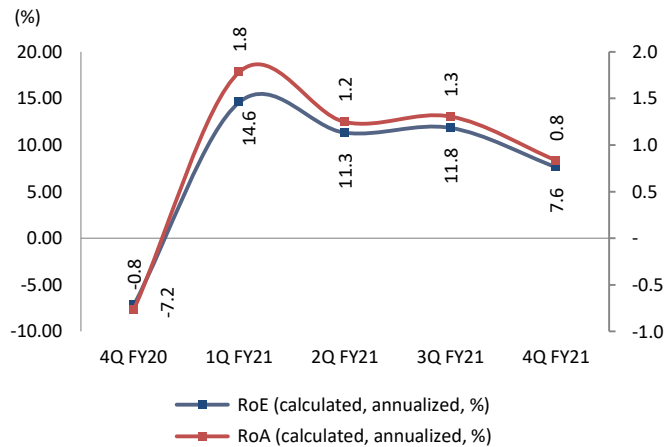
Loan Book Trend



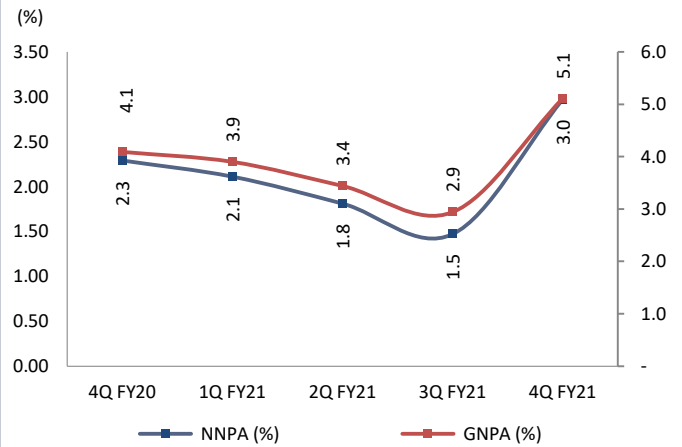
NII and NIM Trend



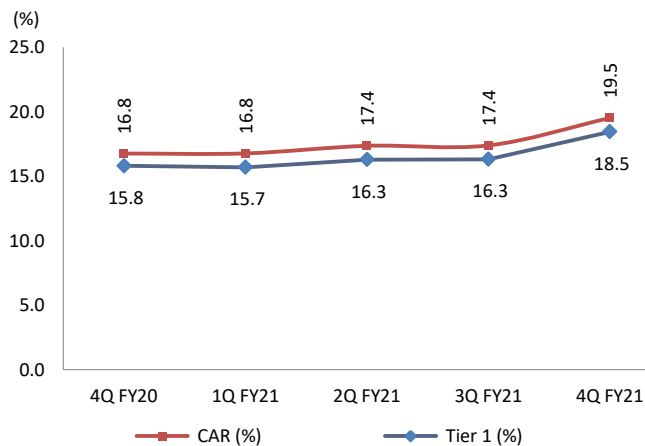
Retrun Ratio Trend



Asset Quality Trend



Capital Adequacy Trend



Yield & Cost

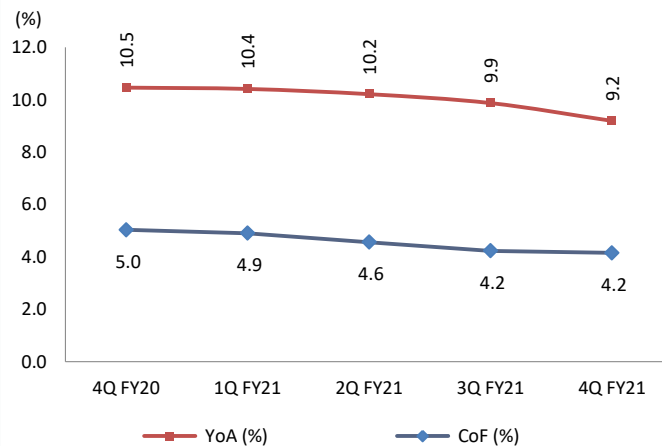


Exhibit 1 : Quarterly Balance Sheet

(₹ mn)	4Q FY20	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Share capital	737	738	738	739	0.2	0.1
Reserves & Surplus	52,223	54,975	56,674	57,686	10.5	1.8
Net worth	52,961	55,714	57,413	58,425	10.3	1.8
Deposits	4,08,325	4,14,205	4,32,883	4,45,374	9.1	2.9
Borrowings	20,324	16,760	7,807	13,457	(33.8)	72.4
Other liabilities & Provisions	15,726	19,152	22,449	15,861	0.9	(29.3)
Total Liabilities	4,97,335	5,05,831	5,20,552	5,33,117	7.2	2.4
Cash & Balances with RBI	20,304	19,885	25,172	27,927	37.5	10.9
Balance with Banks & Money at call	26,913	9,480	17,995	28,223	4.9	56.8
Investments	91,168	1,07,025	94,845	94,359	3.5	(0.5)
Advances	3,39,274	3,48,248	3,59,188	3,61,578	6.6	0.7
Fixed Assets	2,452	2,378	2,279	2,327	(5.1)	2.1
Other Assets	17,225	18,814	21,073	18,702	8.6	(11.3)
Total Assets	4,97,335	5,05,831	5,20,552	5,33,117	7.2	2.4

Source: Company, LKP Research

Exhibit 2 : Quarterly Performance trend

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Interest Income	10,417	10,494	10,610	10,480	9,763	(6.3)	(6.8)
Interest Expenses	6,222	6,124	5,858	5,590	5,478	(12.0)	(2.0)
NII	4,195	4,370	4,751	4,890	4,285	2.2	(12.4)
NIM (%)	3.9	4.0	4.1	4.2	3.7	(4.9)	(10.6)
Other Income	1,793	1,606	1,693	2,298	1,451	(19.1)	(36.9)
PPoP	3,351	3,560	3,847	4,584	2,847	(15.0)	(37.9)
Provisions	4,504	1,570	1,770	2,185	2,385	(47.0)	9.2
PAT	-953	1,540	1,577	1,699	1,112	(216.7)	(34.6)
RoA (calculated, annualized, %)	-0.8	1.8	1.2	1.3	0.8	(208.8)	(36.1)
RoE (calculated, annualized, %)	-7.2	14.6	11.3	11.8	7.6	(205.8)	(35.7)
Deposits	4,08,325	4,10,260	4,14,205	4,32,883	4,45,374	9.1	2.9
Advances	3,39,274	3,45,360	3,48,248	3,59,188	3,61,578	6.6	0.7

Source: Company, LKP Research

Exhibit 3 : Quarterly Asset quality trend

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
GNPA (%)	4.1	3.9	3.4	2.9	5.1	24.9	73.8
NNPA (%)	2.3	2.1	1.8	1.5	3.0	29.7	102.0
PCR (calculated, %)	45.0	45.9	48.4	50.7	43.2	-4.0	-14.8
PCR (Reported, including tec write off %)	65.0	68.0	70.0	73.0	64.0	(1.5)	(12.3)
GNPA - Opening Balance	11,854	14,134	13,461	12,206	10,717	(9.6)	(12.2)
Slippages	4,807	34	-	-	11,097	130.9	#DIV/0!
Reduction	2,527	707	1,255	1,489	2,882	14.0	93.6
GNPA - Closing Balance	14,134	13,461	12,206	10,717	18,932	33.9	76.7
Accumulated Provision	6,365	6,174	5,903	5,437	8,180	28.5	50.5
NNPA	7,769	7,287	6,303	5,280	10,752	38.4	103.6

Source: Company, LKP Research

Exhibit 4 : Quarterly Loan book Trend

(₹ mn)	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	YoY (%)	QoQ (%)
Retail Loans	1,55,718	1,58,953	1,64,664	1,71,985	1,60,151	2.85	-6.88
Agri & Allied Loans	54,638	54,325	40,057	41,162	48,169	-11.84	17.02
MSME	1,07,531	1,10,298	1,23,000	1,27,309	1,46,474	36.22	15.05
Corporate	21,387	21,784	20,527	18,732	6,784	-68.3	-63.8
Gross loan book	3,39,274	3,45,360	3,48,248	3,59,188	3,61,578	6.6	0.7
Loan book share (%)							
Retail Loans %	45.9	46.0	47.3	47.9	44.3	(3.5)	(7.5)
Agri & Allied Loans %	16.1	15.7	11.5	11.5	13.3	(17.3)	16.2
MSME %	31.7	31.9	35.3	35.4	40.5	27.8	14.3
Corporate %	6.3	6.3	5.9	5.2	1.9	(70.2)	(64.0)
Gross loan book %	100.0	100.0	100.0	100.0	100.0	-	-

Source: Company, LKP Research

Exhibit 5 : Capital Adequacy

Qtr/Yr	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
CET1 (%)	15.8	15.7	16.3	16.3	18.5
AT1 (%)	-	-	-	-	-
Tier 1 (%)	15.8	15.7	16.3	16.3	18.5
Tier 2 (%)	1.0	1.1	1.1	1.1	1.1
CAR (%)	16.8	16.8	17.4	17.4	19.5

Source: Company, LKP Research

Exhibit 6 : Ratio Analysis

Qtr/Yr	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
Operating ratios					
YoA (%)	10.5	10.4	10.2	9.9	9.2
CoF (%)	5.0	4.9	4.6	4.2	4.2
Spread (%)	5.4	5.5	5.7	5.6	5.0
NIM (%)	3.9	4.0	4.1	4.2	3.7
Cost to Income ratio (%)	44.0	40.4	40.3	38.9	50.4
Credit cost (calculated, annualized %)	5.3	1.8	2.0	2.4	2.6
Balance sheet ratios					
Debt to Equity Ratio	0.4	-	0.3	0.1	0.2
Equity to loan Ratio	0.2	0.0	0.2	0.2	0.2
CDR (%)	83.1	84.2	84.1	83.0	81.2
WA/WL	1.0	0.8	1.0	1.0	1.0
RoA (calculated, annualized, %)	-0.8	1.8	1.2	1.3	0.8
RoE (calculated, annualized, %)	-7.2	14.6	11.3	11.8	7.6
BVPS	71.8	73.0	75.5	77.8	79.1

Source: Company, LKP Research

Annual Projections

Exhibit 7 : Balance Sheet Projections

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	737	739	739	738	738
Reserves & Surplus	52,223	57,686	64,207	71,380	79,271
Net worth	52,961	58,425	64,946	72,118	80,009
Deposits	4,08,325	4,45,374	4,74,323	5,05,154	5,37,989
Borrowings	20,324	13,457	14,130	14,836	15,578
Other liabilities & Provisions	15,726	15,861	16,020	16,180	16,342
Preference Capital	-	-	-	-	-
Total Liabilities	4,97,335	5,33,117	5,69,419	6,08,289	6,49,918
Cash & Balances with RBI	20,304	27,927	29,323	30,790	32,329
Balance with Banks & Money at call	26,913	28,223	29,635	31,116	32,672
Investments	91,168	94,359	99,077	1,04,031	1,09,233
Advances	3,39,274	3,61,578	3,90,505	4,21,745	4,55,485
Fixed Assets	2,452	2,327	2,350	2,374	2,397
Other Assets	17,225	18,702	18,528	18,233	17,802
Total Assets	4,97,335	5,33,117	5,69,419	6,08,289	6,49,918

Source: Company, LKP Research

Exhibit 8 : Income Statement Projections

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	41,686	41,347	45,895	50,943	56,547
Interest Expenses	24,934	23,050	24,433	26,388	28,763
NII	16,752	18,297	21,462	24,556	27,784
Other Income	6,799	7,048	7,752	8,528	9,380
PPoP	13,414	14,838	17,064	19,624	22,567
Provisions	7,551	7,910	8,850	7,520	7,200
<i>Credit cost (calculated, annualized %)</i>	<i>8.9</i>	<i>8.8</i>	<i>2.3</i>	<i>1.8</i>	<i>1.6</i>
PAT	4,763	5,928	6,521	7,173	7,890
<i>RoA (calculated, annualized, %)</i>	<i>1.0</i>	<i>1.1</i>	<i>1.1</i>	<i>1.2</i>	<i>1.2</i>
<i>RoE (calculated, annualized, %)</i>	<i>9</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>

Source: Company, LKP Research

Exhibit 9 :Ratios

Qtr/Yr	FY20	FY21	FY22E	FY23E	FY24E
<i>Credit cost (calculated, annualized %)</i>	8.9	8.8	2.3	1.8	1.6
<i>Debt to Equity Ratio</i>	0.4	0.2	0.2	0.2	0.2
<i>Equity to loan Ratio</i>	0.2	0.2	0.2	0.2	0.2
<i>CDR (%)</i>	83.1	81.2	82.3	83.5	84.7
<i>RoA (calculated, annualized, %)</i>	1.0	1.1	1.1	1.2	1.2
<i>RoE (calculated, annualized, %)</i>	9.0	10.1	10.0	9.9	9.9
<i>BVPS</i>	71.8	79.1	87.9	97.7	108.4
<i>EPS (₹)</i>	6.5	8.0	8.8	9.7	10.7
<i>GNPA (%)</i>	4.1	5.1	6.2	5.7	4.1
<i>NNPA (%)</i>	2.3	3.0	3.1	2.6	1.7

Source: Company, LKP Research

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