

CMP: ₹ 155

Target: ₹ 200 (29%)

Target Period: 12 months

August 10, 2021

BUY

Operational performance steady...

About the stock: City Union Bank is an old private sector bank with focus on MSME and trading loans that form 52% of overall advances.

- Strong presence in south India with 630 out of total 702 branches
- Total 99% of bank's advances are secured loans

Q1FY22 Results: PAT was boosted by other income and low credit cost.

- NII up 2.4% YoY, 4.5% QoQ at ₹ 448 crore, NIMs up 14 bps QoQ to 3.86%
- Other income up 34.9% QoQ helped by ~3.5x rise in treasury income
- C/I ratio down 991 bps to 40.5%; provisions fell 28.7% QoQ to ₹ 170 crore
- Loan book up 5.4% YoY while deposit growth was at 8.7% YoY
- GNPA up 48 bps QoQ to 5.59% while restructuring up 46 bps QoQ to 5.45%

What should investors do? City Union Bank's stock price has given over 30% returns in the past five years. Healthy capitalisation, secured nature of loans, strong liability franchisee are key positives that would help it to sail through turbulent times.

- We retain our BUY rating on the stock

Target Price and Valuation: We value CUB at ~2.3x FY23E ABV and maintain target for the stock at ₹ 200 per share.

Key triggers for future price performance:

- High level of secured book raises chances for better recovery
- Strong and dependable liability franchisee to help contain funding costs
- The bank has strong operating metrics that enable consistent performance
- Return ratios to improve with RoE, RoA expected at 12.4%, 1.4%, respectively

Alternate Stock Idea: Apart from CUB, in our coverage we also like CSB Bank.

- CSB Bank has shown meaningful transformation in its overall performance in the past few years and currently focuses on gold and SME loans.
- BUY with target price of ₹380



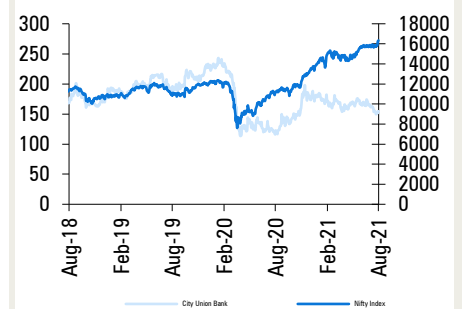
Particulars

Particulars	Amount
Market Capitalisation	₹ 11462 crore
52 week H/L	200 /116
Networth (FY21)	₹ 5842 crore
Face value	₹ 1

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	-	-	-	-	-
FII	21.7	18.7	18.7	18.0	17.2
DII	30.1	27.5	37.6	39.1	41.7
Others	48.3	53.8	43.8	42.9	41.2

Price Chart



Recent Event & Key risks

- GNPA up 48 bps QoQ to 5.59% while restructuring up 46 bps QoQ to 5.45%
- **Key Risk:** Persisting impact of pandemic could dent asset quality in MSME segment and thus overall performance

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Key Financial Summary

₹ crore	FY19	FY20	FY21	4 year CAGR (FY17-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	1611	1675	1830	11%	1902	2183	9%
PPP	1240	1341	1484	11%	1523	1745	8%
PAT	720	533	651	7%	688	862	15%
BV (₹)	65.5	71.4	78.6		88.4	100.6	
ABV (₹)	57.4	60.8	64.1		73.7	87.1	
P/ABV	2.7	2.5	2.4		2.1	1.8	
P/BV	2.4	2.2	2.0		1.8	1.5	
P/E	15.8	21.4	17.6		16.6	13.3	
RoA	1.7	1.1	1.3		1.2	1.4	
RoE	16.2	10.7	11.9		11.3	12.4	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Sequential improvement in operational performance

- NII was up 4.5% QoQ to ₹ 448 crore despite QoQ fall in loan book, mainly on account of 14 bps sequential expansion in NIMs to 3.86%
- Other income was boosted by sharp 3.5x rise in treasury income at ₹ 105.2 crore. Fee income, on a yearly basis, showed healthy growth of 49% at ₹ 68 crore but sequentially it was down as business growth was muted
- Lockdowns restricted business activity. As a result, opex was down 9.9% QoQ. As a result of this, along with better topline, C/I ratio was down 991 bps QoQ to 40.4%
- Provisions during the quarter declined 28.7% QoQ to ₹ 170 crore as the bank utilised ₹ 83 crore worth Covid-provisions created earlier. Thus, net profit was up 12.3% YoY and 55.6% QoQ to ₹ 172.9 crore
- Loan growth on a yearly basis was largely in line with the industry at 5.4% YoY to ₹ 36396 crore but reported a decline of 1.7% QoQ due to lockdowns
- Retail loans were up 20% YoY while MSME book also showed healthy 26% YoY uptick. Gold loan book was up 100% YoY at ₹ 6906 crore
- Deposit growth was 8.7% YoY with CASA growth of 21.8% YoY. CASA ratio for June 2021 was at 27.57%

Q1FY22 Earnings Conference Call highlights

- Further restructuring of ~1.2% is expected
- Unusual stress seen in ECGLS book
- Interest reversals for the quarter were at ₹ 20 crore
- The bank has utilised ₹ 83 crore worth Covid provisions
- The management is confident on reaching its RoA target of 1.5% by the second half of FY23
- Incremental slippages to reduce and recoveries to be back to normalcy in the second half
- There could be 15-20 bps fall in cost of funds but this would be very close to the bottom

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			
	(₹)	TP(₹)		Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BoB (BANBAR)	83	100	Buy	422	1.6	9.5	14.1	51.8	8.7	5.9	0.8	0.7	0.6	0.1	0.4	0.6
SBI (STABAN)	436	540	Buy	3888	22.9	30.5	35.8	19	14.3	12.2	1.8	1.7	1.5	0.5	0.6	0.6
Indian Bank (INDIBA)	135	180	Buy	168	26.6	32.9	46.7	5.1	4.1	2.9	0.6	0.7	0.6	0.6	0.6	0.8
Axis Bank (AXIBAN)	741	900	Buy	2273	25.2	47.7	58.7	29.4	15.5	12.6	2.6	2.2	1.9	0.8	1.3	1.4
City Union (CITUNI)	155	200	Buy	114	8.4	10.0	12.0	18.6	15.4	12.9	2.3	2.0	1.7	1.2	1.3	1.4
DCB Bank (DCB)	95	100	Hold	30	10.8	12.3	15.6	8.8	7.7	6.1	1.0	0.8	0.7	0.9	0.9	1.1
Federal Bank (FEDBAN)	87	100	Buy	183	8.0	9.5	12.0	10.9	9.1	7.2	1.2	1.1	1.0	0.8	0.9	1.0
HDFC Bank (HDFBAN)	1,494	1,800	Buy	8263	56.4	66.4	77.8	26.5	22.5	19.2	4.1	3.7	3.4	1.9	1.9	2.0
IndusInd Bank (INDIBA)	1,029	1,150	Buy	797	36.7	65.1	78.6	28.1	15.8	13.1	1.9	1.7	1.5	0.8	1.3	1.4
Kotak Bank (KOTMAH)	1,779	2,040	Buy	3527	35.1	43.2	51.4	50.6	41.2	34.6	5.8	5.1	4.4	1.8	1.9	2.0
CSB Bank (CSBBAN)	340	380	Buy	59	12.6	18.3	25.5	27.0	18.6	13.3	3.2	2.8	2.3	0.1	1.0	1.2
Bandhan (BANBAN)	304	330	Hold	489	14.7	24.7	31.4	20.6	12.3	9.7	3.5	2.8	2.2	2.3	3.2	3.3
IDFC First (IDFBAN)	49	60	Buy	305	0.8	0.6	2.9	61.7	83.2	16.9	1.6	1.3	1.2	0.3	0.2	0.9

Source: Company, ICICI Direct Research

CUB has shown steady operational performance over past many years reflecting strong fundamentals of the company. We maintain BUY rating on the stock.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	448	437	2.4	429	4.5	Margin expansion drives sequential growth
NIM (%)	3.86	4.0	-12 bps	3.7	14 bps	Relatively less stress accretion led to lower interest reversals, thus aiding NIM expansion
Other Income	196	161	21.8	145	34.9	Sequential growth boosted by treasury gains
Net Total Income	643	598	7.6	574	12.1	
Staff cost	129	116	11.0	107	20.5	
Other Operating Expenses	131	125	4.7	182	-27.9	Down due to lower business activity
PPP	383	356	7.6	285	34.5	
Provision	170	157	8.3	239	-28.7	Utilised ₹ 83 crore Covid provisions. Hence, credit cost was down this quarter
PBT	213	199	7.0	46	361.2	
Tax Outgo	40	45	-11.1	-65	-161.5	
PAT	173	154	12.3	111	55.6	Lower credit cost and other income growth boosted PAT
Key Metrics						
GNPA	2,035	1,346	51.2	1,893	7.5	Sequential rise as lockdowns impacted collections
NNPA	1,242	716	73.4	1,075	15.5	
Advances	36,396	34,536	5.4	37,021	-1.7	Flattish growth sequentially, YoY growth largely in line with industry

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY22E			FY23E
	Old	New	% Change	Introduced
Net Interest Income	1,949	1,902	-2	2,183
Pre Provision Profit	1,523	1,523	0	1,745
NIM (%)	3.7	3.6	-6 bps	3.8
PAT	741	688	-7	862
ABV (₹)	77.6	73.7	-5.0	87.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current		Earlier
	FY22E	FY23E	FY22E
Credit growth (%)	9.0	13.2	14.0
Deposit Growth (%)	9.1	11.9	11.8
CASA ratio (%)	30.5	31.0	26.4
NIM Calculated (%)	3.6	3.8	3.7
Cost to income ratio (%)	41.3	40.4	43.3
GNPA (₹ crore)	2,110	2,110	2,049
NNPA (₹ crore)	1,084	995	919
Slippage ratio (%)	2.3	2.0	2.0
Credit cost (%)	1.5	1.3	1.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	3,767.2	4,168.6	4,134.7	4,260.5	4,929.7
Interest Expended	2155.7	2493.4	2305.0	2358.0	2746.7
Net Interest Income	1,611.5	1,675.2	1,829.7	1,902.5	2,183.0
growth (%)	12.7	4.0	9.2	4.0	14.7
Non Interest Income	514.4	679.9	704.8	698.7	750.9
Net Income	2125.9	2355.1	2534.4	2601.1	2933.9
Staff cost	364.4	420.7	463.7	505.0	549.4
Other Operating expense	521.4	593.1	586.9	573.4	639.3
Operating profit	1240.0	1341.4	1483.8	1522.7	1745.3
Provisions	277.7	698.1	733.1	647.8	653.3
Taxes	242.0	110.0	100.0	186.7	230.1
Net Profit	720.3	533.3	650.8	688.2	861.9
growth (%)	21.6	-26.0	22.0	5.8	25.2
EPS (₹)	9.8	7.2	8.8	9.3	11.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	73.5	73.7	73.9	73.9	73.9
EPS (₹)	9.8	7.2	8.8	9.3	11.7
BV (₹)	65.5	71.4	78.6	88.4	100.6
ABV (₹)	57.4	60.8	64.1	73.7	87.1
P/E	15.8	21.4	17.6	16.6	13.3
P/BV	2.4	2.2	2.0	1.8	1.5
P/ABV	2.7	2.5	2.4	2.1	1.8
Yields & Margins (%)					
Net Interest Margins	4.0	3.7	3.7	3.6	3.8
Yield on assets	9.3	9.2	8.5	8.2	8.6
Avg. cost on funds	5.9	6.1	5.2	4.9	5.2
Yield on average advances	10.5	10.5	10.0	9.5	10.0
Avg. Cost of Deposits	5.9	6.2	5.7	4.9	5.2
Quality and Efficiency (%)					
Cost to income ratio	41.5	42.9	41.3	41.3	40.4
Credit/Deposit ratio	85.0	83.1	81.2	81.2	82.1
GNPA	3.0	4.2	5.2	5.4	4.7
NNPA	1.8	2.3	3.0	2.8	2.2
ROE	16.2	10.7	11.9	11.3	12.4
ROA	1.7	1.1	1.3	1.2	1.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	73.5	73.7	73.9	73.9	73.9
Reserves and Surplus	4767.3	5222.3	5768.6	6491.9	7388.9
Networth	4840.8	5296.1	5842.5	6565.8	7462.8
Deposits	38447.9	40832.5	44537.4	48569.4	54357.5
Borrowings	480.9	2032.4	1345.7	1480.3	1628.3
Other Liabilities & Provisions	1489.3	1572.6	1586.1	1674.1	1768.4
Total	45,259	49,734	53,312	58,290	65,217
Applications of Funds					
Fixed Assets	250.0	245.2	232.7	249.3	269.2
Investments	7712.0	9116.6	9435.9	10384.3	11428.2
Advances	32673.3	33927.4	36157.8	39414.2	44627.1
Other Assets	1660.2	1722.7	1870.2	3118.6	3969.9
Cash with RBI & call money	2963.3	4721.6	5615.1	5123.2	4922.7
Total	45,259	49,734	53,312	58,290	65,217

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	13.3	9.9	7.2	9.3	11.9
Advances	17.3	3.8	6.6	9.0	13.2
Deposit	17.0	6.2	9.1	9.1	11.9
Total Income	8.8	13.2	-0.2	2.5	14.5
Net interest income	12.7	4.0	9.2	4.0	14.7
Operating expenses	17.4	14.4	3.6	2.6	10.2
Operating profit	2.7	8.2	10.6	2.6	14.6
Net profit	21.6	-26.0	22.0	5.8	25.2
Net worth	15.5	9.5	10.4	12.5	13.7
EPS	10.0	(26.2)	21.8	5.8	25.2

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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