

CMP: ₹ 178

Target: ₹ 215 (21%)

Target Period: 12 months

August 19, 2022

BUY

Healthy quarter; growth guidance revised upwards...

About the stock: City Union Bank is an old private sector bank with focus on MSME and agri loans that form 61% of overall advances.

- Strong presence in south India with 644 out of total 727 branches
- Total 99% of bank's advances are secured in nature

Q1FY23 Results: Healthy performance led by strong business growth.

- Advances grew 12.5% YoY to ₹ 40934 crore. Deposits up 9.3% YoY with CASA growth at 25% YoY
- NII up 17.3% YoY, 4.8% QoQ. NIMs declined marginally 6 bps QoQ at 3.95%
- GNPA down 5 bps QoQ to 4.65%. Restructured book declined to ~5%

What should investors do? City Union Bank's share price has increased by ~25% in the past five year. Healthy capitalisation, secured loans and improving asset quality trend are key positives.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value City Union Bank at ~2x FY24E ABV and revise our target price from ₹ 200 to ₹ 215 per share.

Key triggers for future price performance:

- The management revised their credit growth guidance upwards to 15-18%, which is encouraging. Business momentum to see uptick from here on
- Opex to remain elevated, though steady margin at ~4% and business growth to aid operational performance and return ratios
- Asset quality hiccups fading away as incremental stress formation under control

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

- CSB Bank is a south based private sector bank with Kerala contributing ~48% of total business. Changed strategy in various aspects of lending has led to transformation and improved performance in the past few years
- BUY with a target price of ₹ 250

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	1611	1675	1830	1916	6%	2176	2403	12%
PPP	1240	1341	1468	1595	9%	1739	1900	9%
PAT	720	533	593	760	2%	932	1019	16%
BV (₹)	65.5	71.4	78.6	88.7		101.5	115.8	
ABV (₹)	57.4	60.8	64.1	74.0		87.6	101.4	
P/ABV	3.1	2.9	2.8	2.4		2.0	1.8	
P/BV	2.7	2.5	2.3	2.0		1.8	1.5	
P/E	18.2	24.6	22.2	17.3		14.1	12.9	
RoA	1.7	1.1	1.2	1.3		1.4	1.5	
RoE	16.2	10.7	10.6	12.2		13.2	13.6	

Source: Company, ICICI Direct Research



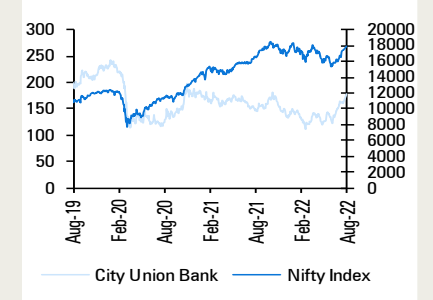
Particulars

Particulars	Amount
Market Capitalisation	₹ 13242 crore
52 week H/L	183 /108
Networth	₹ 6759 crore
Face value	₹ 1

Shareholding pattern

	Dec-21	Mar-22	Jun-22
Promoter	-	-	-
FII	16.7	18.8	18.8
DII	43.2	40.5	41.0
Others	40.1	40.7	40.2

Price Chart



Recent Event & Key risks

- GNPA down 5 bps QoQ to 4.65%. Restructured book at ~5%
- **Key Risk:** 1) Slower business growth to impact earnings; 2) Headwinds in MSME segment could impact asset quality

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Healthy performance led by business growth

- NII up 17.3% YoY, 4.8% QoQ to ₹ 525 crore, largely due to healthy credit offtake and margin expansion (YoY). Margin expanded 9 bps YoY to 3.95%. Other income reported growth of 11.2% YoY, 7.2% QoQ, mainly on account of higher recoveries during the quarter
- Provisions declined 11.1% QoQ, 10.6% YoY at ₹ 152 crore. Thus, PAT reported growth of 30.1% YoY, 7.7% QoQ to ₹ 225 crore
- Asset quality improved as GNPA, NNPA both declined 5 bps QoQ to 4.65%, 2.89%, respectively. Gross slippages were at ₹ 270 crore vs 220 crore in Q4FY22.
- Advances were up 12.5% YoY to ₹ 40934 crore, led by MSME and agri segment. High yield trading and MSME segment consists of ~50% of total loans. On a sequential basis, advances de-grew 0.5%. Deposit growth was at 9.3% YoY to ₹ 48772 crore, led by 25% YoY uptick in CASA. CASA ratio is now at 31.55% vs. 32.56% QoQ

Q1FY23 Earnings Conference Call highlights

- Loan growth guidance at 15-18% YoY for FY23E. NIMs to be at 3.85-4%. Slippage ratio to be in the range of 2-2.5%. RoA target of 1.3-1.5%
- Exposure to airline: SpiceJet is servicing its interest dues regularly and interest is being paid up to July 2022. The account has now moved out of the SMA status
- Slippage ratio declined to 2.64% vs. 3.1% in Q1FY22. The gap between the slippage and recovery has narrowed down to ₹ 20 crore
- Outstanding ECLGS loans was ₹ 13,397 crore. ECLGS balance is ₹ 2,500 crore and allied account balance is about ₹ 11,186 crore. Total outstanding SRs was ₹ 82 crore
- SMA I and SMA II portion of ECLGS portfolio was at ₹ 499.88 crore and ₹ 222.73 crore. Restructured book declined from ₹ 2200 crore to ₹ 2000 crore (~5% of loan book). Overall SMA I is ~2.41% and SMA II is ~2%
- The lack of treasury profit will be offset, to some extent, by the improved recovery. Total ~65% of the loan book is linked to EBLR, 25% is linked to MCLR while the balance is fixed. Loan book of ₹ 100 crore and above is ~4% of total loans
- CI ratio in FY23E to be slightly elevated and may touch 42-45%
- It is planning to open 50 to 75 branches by Q3FY23 and Q4FY23. Also, there is expected to be an addition in headcount

Exhibit 1: Peer Comparison (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
City Union (CITUNI)	178	215	Buy	131	8.0	10.3	12.6	13.8	22	17.3	14.1	12.9	2.8	2.4	2.0	1.8	10.6	12.2	13.2	13.6
Federal Bank (FEDBAN)	110	110	Hold	232	8.0	9.0	10.8	12.4	14	12.2	10.2	8.9	1.5	1.3	1.2	1.1	10.4	10.8	11.5	12.0
IndusInd Bank (INDBA)	1,093	1,150	Buy	846	36.7	59.5	91.7	117.1	30	18.4	11.9	9.3	2.0	1.8	1.6	1.4	7.3	10.1	14.0	15.7
CSB Bank (CSBBAN)	207	250	Buy	35	12.6	26.4	25.4	28.6	16.4	7.8	8.1	7.2	1.9	1.5	1.3	1.1	10.5	19.0	15.4	14.9
Bandhan (BANBAN)	288	330	Buy	463	-12.8	0.8	24.7	30.3	-22.5	368.8	11.6	9.5	4.5	2.9	2.4	1.9	-14.6	0.8	20.7	20.9
IDFC First (IDFBAN)	45	50	Buy	281	0.8	0.2	2.6	3.9	56.7	193.1	17.5	11.7	1.6	1.5	1.3	1.2	2.7	0.8	7.4	10.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	525	448	17.3	501	4.8	Driven by healthy credit offtake and margin expansion (YoY)
NIM (%)	3.95	3.86	9 bps	4.01	-6 bps	
Other Income	218	196	11.2	203	7.2	Mainly led by higher recoveries
Net Total Income	742	643	15.4	704	5.5	
Staff cost	133	129	2.7	114	16.8	
Other Operating Expenses	163	131	24.1	150	8.3	CI ratio continue to remain higher at ~40%
PPP	447	383	16.7	440	1.7	
Provision	152	170	-10.6	171	-11.1	Credit cost declined to 0.12%
PBT	295	213	38.6	269	9.7	
Tax Outgo	70	40	75.0	60	16.7	
PAT	225	173	30.1	209	7.7	Lower credit cost aids in healthy PAT growth
Key Metrics						
GNPA	1,904	2,035	-6.5	1,933	-1.5	Restructured book at ~5% of total loans
NNPA	1,161	1,242	-6.5	1,191	-2.5	
Advances	40,934	36,396	12.5	41,156	-0.5	Led by MSME and agri segment

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current		Earlier
	FY23E	FY24E	FY23E
Credit growth (%)	12.3	14.0	13.2
Deposit Growth (%)	14.0	11.9	11.9
NIM Calculated (%)	3.7	3.7	3.8
Cost to income ratio (%)	40.5	40.7	40.4
GNPA (₹ crore)	2,047	1,197	2,110
NNPA (₹ crore)	1,084	978	995
Slippage ratio (%)	2.3	1.9	2.0
Credit cost (%)	1.5	1.1	1.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	4,168.6	4,134.7	4,104.8	4,517.7	5,095.3
Interest Expended	2493.4	2305.0	2188.3	2341.3	2692.3
Net Interest Income	1,675.2	1,829.7	1,916.5	2,176.4	2,403.0
growth (%)	4.0	9.2	4.7	13.6	10.4
Non Interest Income	679.9	688.8	759.1	750.9	808.4
Net Income	2355.1	2518.4	2675.6	2927.3	3211.4
Staff cost	420.7	463.7	503.6	549.4	596.8
Other Operating expense	593.1	586.9	576.7	639.3	714.9
Operating profit	1341.4	1467.8	1595.3	1738.7	1899.7
Provisions	698.1	775.0	610.1	559.3	611.5
Taxes	110.0	100.0	225.0	247.6	269.3
Net Profit	533.3	592.8	760.2	931.8	1,018.9
growth (%)	-26.0	11.2	28.2	22.6	9.3
EPS (₹)	7.2	8.0	10.3	12.6	13.8

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	73.7	73.9	73.9	73.9	73.9
EPS (₹)	7.2	8.0	10.3	12.6	13.8
BV (₹)	71.4	78.6	88.7	101.5	115.8
ABV (₹)	60.8	64.1	74.0	87.6	101.4
P/E	24.6	22.2	17.3	14.1	12.9
P/BV	2.5	2.3	2.0	1.8	1.5
P/ABV	2.9	2.8	2.4	2.0	1.8
Yields & Margins (%)					
Net Interest Margins	3.7	3.7	3.6	3.7	3.7
Yield on assets	9.2	8.5	8.5	7.6	7.8
Avg. cost on funds	6.1	5.2	4.9	4.3	4.4
Yield on average advances	10.5	10.0	10.0	8.4	8.5
Avg. Cost of Deposits	6.2	5.7	4.9	4.3	4.4
Quality and Efficiency (%)					
Cost to income ratio	42.9	41.3	40.4	40.5	40.7
Credit/Deposit ratio	83.1	81.2	84.6	83.4	84.9
GNPA	4.2	5.2	4.7	4.5	4.0
NNPA	2.3	3.0	3.0	2.3	2.1
ROE	10.7	10.6	12.2	13.2	13.6
ROA	1.1	1.2	1.3	1.4	1.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	73.7	73.9	74.0	74.0	74.0
Reserves and Surplus	5222.3	5768.6	6511.7	7458.4	8512.3
Networth	5296.1	5842.5	6585.7	7532.3	8586.3
Deposits	40832.5	44537.4	47689.7	54357.5	60844.6
Borrowings	2032.4	1345.7	5311.8	3014.4	4069.4
Other Liabilities & Provisions	1572.6	1586.1	1943.7	1768.4	1869.9
Total	49,734	53,312	61,531	66,673	75,370
Applications of Funds					
Fixed Assets	245.2	232.7	214.7	269.2	294.3
Investments	9116.6	9435.9	12221.2	12563.8	13826.8
Advances	33927.4	36157.8	40358.5	45326.3	51672.0
Other Assets	1722.7	1870.2	2049.6	3590.7	4633.8
Cash with RBI & call money	4721.6	5615.1	6686.9	4922.7	4943.3
Total	49,734	53,312	61,531	66,673	75,370

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets					
Total assets	9.9	7.2	15.4	8.4	13.0
Advances	3.8	6.6	11.6	12.3	14.0
Deposit	6.2	9.1	7.1	14.0	11.9
Total Income	13.2	-0.2	6.2	0.3	12.0
Net interest income	4.0	9.2	4.7	13.6	10.4
Operating expenses	14.4	3.6	2.8	10.0	10.4
Operating profit	8.2	9.4	8.7	9.0	9.3
Net profit	-26.0	11.2	28.2	22.6	9.3
Net worth	9.5	10.4	12.7	14.4	14.1
EPS	7.2	8.0	10.3	12.6	13.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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