

CMP: Rs 126

Rating: Hold

Target Price: Rs 134

Stock Info

BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs Cr)	74
Mkt Cap (Rs Cr)	9,305
52w H/L (Rs)	249/ 110
Avg Yearly Vol (in 000')	4,383

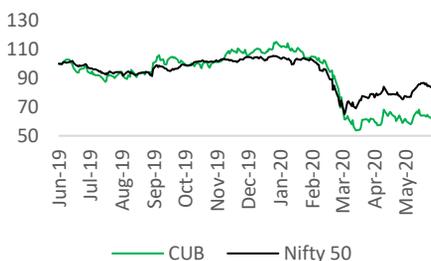
Shareholding Pattern %

(As on March, 2020)

Promoters	Nil
FII	20.79
DII	32.09
Public & Others	47.12

Stock Performance (%)	3m	6m	12m
CUB	-4.8	-45.0	-40.4
Nifty 50	24.0	-15.0	-11.9

CUB Vs Nifty



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City Union Bank (CUB) reported weak operating performance during Q4FY20 with asset quality deterioration. NII for the quarter was below our estimate and it fell by 0.3% YoY to Rs 419 cr vs. our estimate of Rs 556 cr. Operating profit of the bank de-grew by ~1% YoY to Rs 335 cr vs. our estimate of Rs 383 cr. Due to five-fold increase in provisions on YoY basis, Bank has reported loss during the quarter. The bank has made Covid-19 provision of Rs 125 cr. Loss for the quarter stood at Rs 95 cr vs. profit of Rs 175 cr YoY. Slippages during the quarter doubled sequentially at Rs 481 cr, resulting in deterioration of asset quality despite higher write-offs. GNPA/NNPA of the bank increased by 59bps/34bps QoQ at 4.09%/2.29% respectively.

Operationally Weak Performance

CUB reported loss during the quarter on account of higher provisions for bad loans. NII was flat YoY led by weak loan growth at 4.6% and lower NIMs (down 49bps YoY and 5bps QoQ). Non-interest income of the bank was strong at 22% YoY mainly due to sharp growth in treasury income. Provisions during the quarter was up by 5x YoY primarily due to higher slippages and Covid-19 related provisions. Cost to income ratio of the bank improved to 44% from 46% QoQ, led by sharp growth in treasury income.

Loan growth was at multi quarter low

Loan book growth of the bank was tepid at 4.6% YoY led by weak 5% growth in SME (31% of the total book). Agriculture advances growth remained strong at 12% YoY and CRE portfolio registered robust growth at 42% YoY. Management indicated that loan growth in FY21E to remain lower as the focus of the bank's will be on strengthening balance sheet. Deposit growth of the bank fell to 6.2% vs. 12% growth in previous quarter. This was led by moderate growth in CASA deposit at 5% YoY. CASA ratio of the bank improved to 24.9% from 23.3% QoQ.

Bad loans rises as slippages increased and recoveries remain lower

GNPA/NNPA ratio of the bank increased by 59bps/34bps QoQ at 4.09%/2.29% due to 2x increase in slippages. Covid-19 related lockdown in late March has impacted collection. Recoveries also remained lower during the quarter. Write-off increased significantly to Rs 207 cr vs. Rs 52 cr in Q3FY20.

Valuation & View

The bank has reported weak operating performance during the quarter coupled with asset quality deterioration. The bank's niche lending practices to SME segment which is most impacted sector in current scenarios to curtail the growth in the near term and asset quality is also expected to deteriorate further. Credit cost is expected to remain elevated in the near term. Accordingly return profile will remain muted with RoA/RoE at 1%/10% for FY22E. We cut our EPS estimates by 53%/37% respectively for FY21/22E to factoring low loan growth and higher credit cost. We maintain our Hold rating on the stock with a revised target price of Rs 134 (Rs 139 earlier), valuing the bank at P/adj. BV of 1.8x to its FY22E ABV.

City Union Bank (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
NII	1,430	1,611	1,675	1,648	1,724
PPOP	1,208	1,240	1,341	1,183	1,228
PAT	592	683	476	427	592
EPS (INR / Share)	8.9	9.3	6.5	5.8	8.0
ABVPS (INR / Share)	53.2	57.9	61.3	65.4	74.6
NIM (%)	4.0	3.9	3.7	3.3	3.2
Advances Growth YoY (%)	16.9%	17.3%	3.8%	4.0%	10.0%
Deposits Growth	9.1%	17.0%	6.2%	5.0%	10.0%
P / ABV (x)	3.7	2.2	2.1	1.9	1.7

Quarterly Result Snapshot					
Particulars (Rs. in Crore)	Q4 FY20	Q4 FY19	YoY	Q3FY20	QoQ
Interest earned	1042	985	5.8%	1061	-1.8%
Interest expended	622	564	10.3%	634	-1.8%
NII	419	421	-0.3%	427	-1.8%
NIM (%)	3.91	4.40	-49bps	3.96	-5bps
Non-interest income	179	147	22.1%	142	25.9%
Operating Expenses	264	230	14.8%	261	1.0%
Employee cost	93.8	91.4	2.7%	113.4	-17.2%
Cost-Income ratio (%)	44.0	40.5	356bps	45.9	-181bps
Operating Profit	335	338	-0.8%	308	8.6%
Provisions	450	91	396.7%	81	456.0%
PBT	-115	247	NA	227	NA
Tax provisions	-20	72	NA	35	NA
Effective tax rate	17%	29%		15%	
Net profit	-95	175	NA	192	NA
EPS	-1.3	2.4	NA	2.6	NA

Asset Quality (%)					
Particulars	Q4 FY20	Q4 FY19	YoY	Q3FY20	QoQ
GNPA	4.09	2.95	114bps	3.50	59bps
NNPA	2.29	1.81	48bps	1.95	34bps
PCR	65.0	63.0	200bps	65.0	0bps

Quarterly Performance					
Particulars	Q4 FY20	Q4 FY19	YoY	Q3FY20	QoQ
Advances	34576	33065	4.6%	33828	2.2%
Deposits	40833	38448	6.2%	39812	2.6%
CASA	10197	9698	5.1%	9294	9.7%
CASA %	25.0	25.2	-25bps	23.3	163bps
C-D ratio %	84.7	86.0	-132bps	85.0	-29bps
Capital Adequacy %	16.8	15.6	121bps	15.5	127bps

Loan Book Break-Up									
Particulars	Q4FY20	in %	Q4FY19	in %	Q3FY20	in %	YoY	QoQ	
Agriculture	5,464	16%	4,879	15%	4,566	13%	12%	20%	
MSME	10,753	31%	10,281	31%	11,161	33%	5%	-4%	
Large Industries	2,139	6%	2,219	7%	2,202	7%	-4%	-3%	
Retail Traders	943	3%	1,137	3%	987	3%	-17%	-4%	
Wholesale Traders	4,807	14%	4,588	14%	4,701	14%	5%	2%	
Commercial Real Estate	2,770	8%	1,955	6%	2,489	7%	42%	11%	
Jewel Loan Non Agriculture	713	2%	351	1%	549	2%	103%	30%	
Housing Loans	2,283	7%	2,109	6%	2,245	7%	8%	2%	
Other Personal Loans	1,018	3%	1,318	4%	1,039	3%	-23%	-2%	
Loans Collateralized By Deposits	586	2%	583	2%	542	2%	0%	8%	
Infrastructure	373	1%	353	1%	353	1%	6%	6%	
NBFCs	289	1%	249	1%	338	1%	16%	-14%	
Others	2,439	7%	3,044	9%	2,657	8%	-20%	-8%	
Total	34,576	100%	33,065	100%	33,828	100%	5%	2%	

Concall Highlights:

1. Moratorium Update: The bank has offered moratorium to all its customers on an opt out basis. Management has indicated that they had received two installments for ~48% of the loan book. The bank had extended moratorium to all its 48% customers (by value).
2. Management believes there could be effect on both operating profit and net profit in FY21 but it shall be able to handle it.
3. Rs 250 cr slippages were above expectation and it were from SMA 2 accounts. As per bank's historical experiences it has been able to recover 70% of slippages.
4. The activity in the economy is slowly picking up and transaction volume is increasing closer to pre-covid levels.

Key Financials

Income Statement				
Income Statement (Rs Cr)	2019	2020E	2021E	2022E
Interest Earned	3767	4169	4362	4703
Interest Expended	2156	2493	2713	2979
Net Interest Income	1611	1675	1648	1724
Other Income	514	680	660	737
Fee Income	294	308	354	407
Treasury Income	87	244	191	215
Operating Income	2126	2355	2308	2461
Operating Expenses	886	1014	1125	1233
Employee Expenses	364	421	449	462
Profit before provision & tax	1240	1341	1183	1228
Provisions and Contingencies	315	755	643	478
Profit Before Tax	925	586	540	749
Provision for tax	242	110	113	157
Exp. Items	0	0	0	0
Profit After Tax	683	476	427	592

Balance Sheet				
Balance Sheet (Rs Cr)	2019	2020E	2021E	2022E
Sources of funds				
Share Capital	73	74	74	74
Total Reserves	4767	5222	5649	6242
Shareholder's Fund	4841	5296	5723	6315
Deposits	38448	40832	42874	47162
Borrowings	481	2032	2886	4098
Other Liabilities & provisions	1489	1573	1940	1433
Total Liabilities	45259	49734	53423	59008
Application of Funds				
Cash & Bank	2963	4722	5256	5627
Investments	7712	9117	10472	11594
Advances	32673	33927	35285	38813
Fixed Assets	250	245	257	283
Other Assets	1660	1722	2153	2691
Total Assets	45259	49734	53423	59008

Ratios %				
Operational Ratios (%)	2019	2020E	2021E	2022E
Asset Quality				
Gross NPA	2.96	4.09	5.18	4.69
Net NPA	1.81	2.29	2.55	2.10
PCR	63.0	64.0	64.0	64.0
Growth				
Advances Growth	17.3	3.8	4.0	10.0
Deposit growth	17.0	6.2	5.0	10.0
Net Profit Growth	15.3	-30.3	-10.3	38.8
Liquidity				
C-D Ratio	85.0	83.1	82.3	82.3
CASA	25.2	25.0	25.0	25.0
Capital Adequacy	15.6	16.8	17.0	17.1
Efficiency				
Cost Income Ratio	41.7	43.0	48.7	50.1
Operating Costs to Assets	2.0	2.0	2.1	2.1

Ratios %				
Valuation Ratios (%)	2019	2020E	2021E	2022E
Spread Analysis				
Yield on Advances	10.5	10.5	10.6	10.6
Yield on Investments	7.1	7.2	6.5	6.5
Cost of Funds	5.9	6.1	6.1	6.1
Cost of Deposits	5.9	6.1	6.4	6.5
NIM	3.9	3.7	3.3	3.2
Interest Spread	4.6	4.4	4.5	4.5
Profitability				
ROE	15.2	9.4	7.7	9.8
Earnings Per Share (Rs)	9.3	6.5	5.8	8.0
Dividend Per Share (Rs)	0.3	0.2	0.2	0.3
Adjusted Book Value (Rs)	57.9	61.3	65.4	74.6
Valuation				
P / EPS (x)	13.7	19.7	21.9	15.8
P / ABV (x)	2.2	2.1	1.9	1.7

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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