

## Steady Outlook!

10<sup>th</sup> August, 2017

**CMP:** Rs. 164  
**Target Price:** Rs. 171  
**Recommendation:** NEUTRAL

### Stock Info

<b>BSE Group</b>	A
<b>BSE Code</b>	532210
<b>NSE Symbol</b>	CUB
<b>Bloomberg</b>	CUBK IN
<b>Reuters</b>	CUBK.BO
<b>BSE Sensex</b>	31,798
<b>NSE Nifty</b>	9,908

### Market Info

<b>Market Capital(Rs Cr)</b>	10,516
<b>Equity Capital(Rs Cr)</b>	60.1
<b>Avg. Trading Vol.</b>	8,03,510
<b>52 Wk High/ Low</b>	186/112
<b>Face Value</b>	1

### Shareholding Pattern (%) (June 2017)

<b>Promoters</b>	0.0
<b>Domestic Institutions</b>	14.9
<b>Foreign Institutions</b>	34.5
<b>Public &amp; Others</b>	50.6

### Price Chart:



### Business Growth

City Union Bank reported sustained set of numbers for the quarter ended March, 2017. Advances for the bank stood at Rs 24,058 cr growing by 13% YoY and stood flat sequentially. Deposits for the quarter grew by 9% YoY to Rs 27,936 cr though stood flat on QoQ basis. CASA ratio improved to 23.3% against 20.6% in corresponding quarter of the previous year. C-D ratio stood at 79 % vs. 75.9 % YoY.

### Asset Quality

Asset quality for the quarter deteriorated further. Gross NPA came in at 3.1% vs. 2.6% in corresponding quarter of previous year and 2.8 % on sequential basis. Net NPA came in at 1.8% vs. 1.5% in corresponding quarter of previous year and 1.7% sequentially. PCR stood at 62% against 60% YoY and 61% sequentially. During Q1 FY18 , no account has been restructured, nor did the bank sell any assets to ARCs on SR basis in previous two years. Total restructured standard advances on the books stood at 0.55% as on June-17 of the gross advances.

### Profitability

Net interest income for the bank grew to Rs 342 cr rising by 22% YoY and 10% sequentially. Net interest margins for the bank expanded to 4.5 from 3.1 in corresponding quarter of previous year and 4.2 sequentially. Cost to income ratio for the bank decreased by 2% YoY to 37.8% on account of higher Net Interest Income. Effective tax rate for the bank decreased to 22% resulting in net profit growth of 13.6% YoY and 8.9% sequential basis.

The branches for the bank stood steady at 550 while ATM's increased by 19 to 1515 and number of employees increased to 4,716. Capital adequacy for the quarter stood at 15.8% of which Tier-1 stood at 15.4%.

### Valuation

Bank has continued to report sustained performance however asset quality for this quarter deteriorated further. We have valued the stock at its FY 19E P / ABV of 2.5 (x) and arrived at a fair value of Rs 171 per share. At CMP of Rs 164 the stock is trading at P/ABV of 2.4 (x) to its FY 19E ABV. We have "ACCUMULATE" rating on the stock.

### SNAPSHOT

(Rs. Cr)	2017	2018E	2019E
<b>Net Interest Income</b>	1199	1446	1694
<b>Operating Income</b>	1683	1989	2367
<b>Profit After Tax</b>	503	597	696
<b>ROE</b>	15.2	15.6	16.0
<b>P / EPS (x)</b>	19.7	16.6	14.3
<b>P / ABV (x)</b>	3.1	2.7	2.4



Quarterly Result Snapshot					
Particulars	Q1 FY18	Q1 FY17	YoY	Q4 FY17	QoQ
Interest earned	826	772	6.9%	800	3.2%
Interest expended	483	492		489	
NII	342	280	22.3%	311	10.2%
NIM	4.5	4.1	0.4%	4.2	0.3%
Non-interest income	135	111		126	
Operating Expenses	181	155		189	
Employee cost	76.5	63.1		77.8	
Cost-Income ratio	37.8	39.7	-1.9%	43.3	-5.4%
Operating Profit	297	236	26.0%	248	19.9%
Provisions	117	71		71	
PBT	180	165	9.3%	176	2.2%
Tax provisions	40	42		48	
Effective tax rate	22%	25%		27%	
Net profit	140	124	13.6%	129	8.9%
EPS	2.3	2.1		2.1	

Asset Quality (%)					
Particulars	Q1 FY18	Q1 FY17	YoY	Q4 FY17	QoQ
GNPA	3.1	2.6	0.4%	2.8	0.2%
NNPA	1.8	1.6	0.2%	1.7	0.1%
PCR	62.0	60.0		61.0	

Quarterly Performance					
Particulars	Q1 FY18	Q1 FY17	YoY	Q4 FY17	QoQ
Advances	24058	21216	13.4%	24113	-0.2%
Deposits	30468	27936	9.1%	30116	1.2%
CASA	7099	5757	23.3%	7039	0.8%
CASA %	23.3	20.6		23.4	
C-D ratio %	79.0	75.9		80.1	
Capital Adequacy %	15.9	15.3		15.8	

Source: - Company Data Ace Equity, Arihant Research



Income Statement			
(Rs Cr)	2017	2018E	2019E
Interest Earned	3174	3620	4084
Interest Expended	1975	2174	2390
<b>Net Interest Income</b>	<b>1199</b>	<b>1446</b>	<b>1694</b>
Other Income	484	543	673
Fee Income	44	49	57
Treasury Income	108	96	86
<b>Operating Income</b>	<b>1683</b>	<b>1989</b>	<b>2367</b>
Operating Expenses	689	805	976
Employee Expenses	298	336	437
<b>Profit before provision &amp; tax</b>	<b>994</b>	<b>1184</b>	<b>1391</b>
Provisions and Contingencies	301	332	396
<b>Profit Before Tax</b>	<b>693</b>	<b>852</b>	<b>995</b>
Provision for tax	190	256	298
Exp. Items	0	0	0
<b>Profit After Tax</b>	<b>503</b>	<b>597</b>	<b>696</b>

Balance Sheet			
(Rs Cr)	2017	2018E	2019E
<b>Sources of funds</b>			
Share Capital	60	60	61
Total Reserves	3510	3998	4567
<b>Shareholder's Fund</b>	<b>3570</b>	<b>4059</b>	<b>4628</b>
Deposits	30116	34052	39179
Borrowings	531	478	454
Other Liabilities & provisions	1054	1107	1528
<b>Total Liabilities</b>	<b>35271</b>	<b>39695</b>	<b>45789</b>
<b>Application of Funds</b>			
Cash & Bank	2879	2054	1774
Investments	7031	8332	9561
Advances	23833	27646	32622
Fixed Assets	215	219	244
Other Assets	1313	1444	1588
<b>Total Assets</b>	<b>35271</b>	<b>39695</b>	<b>45789</b>

Ratios %			
	2017	2018E	2019E
<b>Asset Quality</b>			
Gross NPA	3.0	3.0	2.8
Net NPA	1.7	1.6	1.4
PCR	61.0	62.0	62.0
<b>Growth</b>			
Advances Growth	13.2	16.0	18.0
Deposit growth	10.9	13.1	15.1
Net Profit Growth	13.1	18.7	16.7
<b>Liquidity</b>			
C-D Ratio	79.1	81.2	83.3
CASA	23.4	24.1	24.8
Capital Adequacy	16.0	15.8	15.3
<b>Efficiency</b>			
Cost Income Ratio	40.9	40.5	41.2
Operating Costs to Assets	2.0	2.0	2.1

	2017	2018E	2019E
<b>Spread Analysis</b>			
Yield on Advances	11.5	11.4	11.0
Yield on Investments	8.1	8.3	8.0
Cost of Funds	6.8	6.7	6.4
Cost of Deposits	6.8	6.8	6.5
NIM	3.8	4.0	4.1
Interest Spread	4.7	4.7	4.6
<b>Profitability</b>			
ROE	15.2	15.6	16.0
Earnings Per Share (Rs)	8.4	9.9	11.5
Dividend Per Share (Rs)	0.3	1.6	1.8
Adjusted Book Value (Rs)	52.6	59.8	68.6
<b>Valuation</b>			
P / EPS (x)	19.7	16.7	14.4
P / ABV (x)	3.1	2.8	2.4



### Arihant Research Desk

E. research@arihantcapital.com  
T. 022-42254800

### Head Office

#1011, Solitaire Corporate park,  
Building No. 10, 1<sup>st</sup> Floor,  
Andheri Ghatkopar Link Road,  
Chakala, Andheri (E).  
Mumbai - 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

### Registered Office

E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

### Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

### Research Analyst Registration No.

INH000002764

### Contact

SMS: 'Arihant' to 56677

### Website

[www.arihantcapital.com](http://www.arihantcapital.com)

### Email Id

[research@arihantcapital.com](mailto:research@arihantcapital.com)

#### Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.