

Sustained Performance

9th Nov, 2017

CMP: Rs. 164
Target Price: Rs. 178
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	532210
NSE Symbol	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
BSE Sensex	33,218
NSE Nifty	10,303

Market Info

Market Capital(Rs Cr)	10,880
Equity Capital(Rs Cr)	66.3
Avg. Trading Vol.	8,03,510
52 Wk High/ Low	186/115
Face Value	1

Shareholding Pattern (%) (June 2017)

Promoters	0.0
Domestic Institutions	15.6
Foreign Institutions	34.1
Public & Others	50.3

Price Chart:



Business Growth

City Union Bank reported sustained set of numbers for the quarter ended Sept, 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 30,882 cr though stood flat on QoQ basis. CASA ratio improved to 23% against 21% in corresponding quarter of the previous year. C-D ratio stood at 82.2 % vs. 78.2 % YoY.

Asset Quality

Asset quality for the quarter deteriorated further. Gross NPA came in at 3.07% vs. 2.69% in corresponding quarter of previous year and 3.05 % on sequential basis. Net NPA came in at 1.76% vs. 1.5% in corresponding quarter of previous year and 1.6% sequentially. Bank has no exposure to the specific accounts referred to the NCLT – neither the Top 12 nor the next list. There was exposure to one such account which they had provided for fully and written off few years ago. PCR stood at 63% against 60% YoY and 62% sequentially. Management hopes to maintain a PCR in the 60-65% range going forward. Total restructured standard advances on the books stood at 0.06% as on Sept-17 vs. 0.84% in Sept-16 of the gross advances.

Profitability

Net interest income for the bank grew to Rs 355 cr rising by 18% YoY and 4% sequentially. Net interest margins for the bank expanded to 4.46% from 4.2% in corresponding quarter of previous year and stood steady from 4.46% sequentially. Cost to income ratio for the bank decreased by 4.3% YoY to 37.3% on account of higher Net Interest Income. Management has guided to maintain CTI in the 38-40% range going forward. Effective tax rate for the bank decreased to 24% resulting in net profit growth of 17% YoY and 3.15% on sequential basis.

The branches for the bank increased by 5 to grow till 550 while ATM's increased by 81 to 1596 and number of employees increased to 4,920. Capital adequacy for the quarter stood at 15.3% of which Tier-1 stood at 14.8%.

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 2.6 (x) and arrived at a fair value of Rs 178 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 "HOLD" rating on the stock.

SNAPSHOT

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

Q2 FY18 Earnings Snapshot:

Quarterly Result Snapshot					
Particulars	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Interest earned	841	791	6.3%	826	1.9%
Interest expended	486	489		483	
NII	355	301	17.8%	342	3.6%
NIM	4.5	4.2	0.3%	4.5	0.0%
Non-interest income	155	104		135	
Operating Expenses	190	169		181	
Employee cost	82.7	76.9		76.5	
Cost-Income ratio	37.3	41.6	-4.3%	37.8	-0.6%
Operating Profit	320	237	35.2%	297	7.8%
Provisions	129	67		117	
PBT	191	170	12.4%	180	5.8%
Tax provisions	46	46		40	
Effective tax rate	24%	27%		22%	
Net profit	145	124	17.0%	140	3.2%
EPS	2.2	2.1		2.3	

Asset Quality (%)					
Particulars	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
GNPA	3.1	2.7	0.4%	3.1	0.0%
NNPA	1.8	1.6	0.1%	1.8	0.0%
PCR	63.0	60.0		62.0	

Quarterly Performance					
Particulars	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Advances	25389	22215	14.3%	24058	5.5%
Deposits	30882	28393	8.8%	30468	1.4%
CASA	7094	5880	20.7%	7099	-0.1%
CASA %	23.0	21.0		23.3	
C-D ratio %	82.2	78.2		79.0	
Capital Adequacy %	15.3	14.8		15.9	

Income Statement

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

Balance Sheet

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

Ratios %

	2017	2018E	2019E
Asset Quality			
Gross NPA	3.0	3.0	2.8
Net NPA	1.7	1.6	1.4
PCR	61.0	62.0	62.0
Growth			
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
Liquidity			
C-D Ratio	79.1	81.2	83.3
CASA	23.4	24.1	24.8
Capital Adequacy	16.0	15.8	15.3
Efficiency			
Cost Income Ratio	40.9	40.5	41.2
Operating Costs to Assets	2.0	2.0	2.1

	2017	2018E	2019E
Spread Analysis			
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
Profitability			
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)	54.0	59.8	68.6
Valuation			
P / EPS (x)	19.7	16.6	14.3
P / ABV (x)	3.1	2.7	2.4

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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%

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