



## ASSET QUALITY DETERIORATES SEQUENTIALLY

**City Union Bank has reported its Q1FY22 performance which beat our estimates on the profitability front due to higher treasury gains and better core fee income.**

- **NII came in at INR 4285 Mn**, 4% QoQ / 2% YoY and 2% below our est.
- **Net Income came in at INR 6432 Mn**, 12% QoQ / 8% YoY and 2% above our est.
- **PPOP came in at INR 3830 Mn**, 35% QoQ / 8% YoY and 11% above our est.
- **Provisions came in at INR 1700 Mn**, -29% QoQ / 8% YoY and 13% below our est.
- **PAT came in at INR 1730 Mn**, 56% QoQ / 12% YoY and 54% above our est.
- **EPS stood at INR 2.34 vs INR 1.51 QoQ / INR 2.09 YoY.**

## Financial Highlights

- Bank's asset quality was worsened during the quarter, with GNPA's sequentially up by 48 bps at 5.59% and NNPA's up by 52 bps to 3.49%. PCR has declined by 424 bps sequentially to 39% in Q1FY22. While restructured book stood at 5.4% of advances (vs 5% QoQ), SMA II ratio stood at 3.2% (vs 2.0% QoQ), which is better than pre-pandemic levels of 5-6% due to high regulatory forbearance. Furthermore, the bank expects lower slippages for FY22E (vs FY21).
- Bank's credit growth moderated to 5.4% YoY/-1.7% QoQ. The incremental credit growth came mostly from Gold Loan, which attract lower risk weights, resulted in improvement of CRAR (19.58% in Q1FY22 vs 16.77% in Q1FY21). According to management, the bank will not require to raise any capital in the current fiscal (FY22). The bank is targeting loan growth of mid-to-high single-digit for FY2022.
- On liabilities, the bank is replacing its term deposits with low cost CASA deposit and maintaining CD ratio at 82-83%, which helped NIMs to stay resilient. Bank's deposit grew by 9%YoY/0.2% QoQ led by CASA growth of 22% YoY taking CASA ratio at 27.6% (Vs 24.6% YoY)
- During the quarter, Bank's NIM stood at 3.86% (vs 3.72% QoQ/3.98% YoY), Yield on Advances stood at 9.40% in Q1FY22 (vs 9.19% QoQ/10.41% YoY). Bank's cost of deposits continue to come-off and stood at 4.95% (vs 5.05% QoQ/5.89% YoY).

## Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21	FY22E	FY23E
NII	16.8	18.3	20.3	23.2
Adjusted net profit	4.8	5.9	7.1	9.1
Net worth	53	58	65	73
EPS (Rs)	6	8	10	12
Growth (%)	-30	24	20	28
P/E (x)	24	19	16	12
P/Adj BV (x)	2.5	2.4	2.0	1.7
RoA (%)	1.0	1.2	1.3	1.5
RoE (%)	9.4	10.6	11.5	13.2

Source: Dalal &amp; Broacha Research, Company

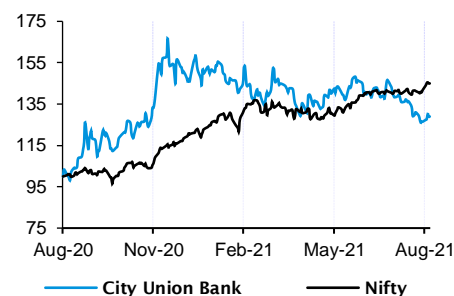
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	176	15

## Market data

Current price	Rs	153
Market Cap (Rs.Bn)	(Rs Bn)	113
Market Cap (US\$ Mn)	(US\$ Mn)	1527
Face Value	Rs	1
52 Weeks High/Low	Rs	200/116
Average Daily Volume	('000)	1619
BSE Code		532210
Bloomberg		CUBK:IN

Source: Bloomberg

## One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	0.0	0.0
FII	17.2	18.0
DII	41.7	39.1
Others	41.2	42.9
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

**Avinash Tanawade**  
(022) 67141449  
avinash.tanawade@dalal-broacha.com

## Highlights of the Conference Call

### Asset quality

- Slippages stood at Rs 4.82 Bn in Q1FY22 (largely front load as guided in Q4FY21 earning call). Going forward, slippages will be moderated and overall Slippages will be lower than FY21 (3% of closing advances).
- Recovery stood at Rs 1.01 Bn in Q1FY22 (vs Rs 1.10 Bn QoQ), comprising Rs 0.82 Bn from live accounts and Rs 0.19 Bn from technically written-off accounts. Recovery was impacted due to lockdown.
- During Q1FY22, the bank has restructured MSME loans worth Rs 5.9Bn and Non-MSME loans worth Rs 5.95 Bn under covid-19 resolution framework. As of Q1 FY22, the total restructured book stood at 5.4% of gross advances. Going forward, ~1 -1.25% additional restructuring will be possible in the coming quarters.
- Out of the total restructuring book, loans worth ~Rs 4.0 Bn, which restructured during the earlier part of last year by giving six months moratorium, have started repaying and slippages from these accounts are very minuscule.
- SMA 2 stood at 3.16% vs 2% QoQ, lower than pre-covid levels of 5-6%.
- Interest reversal for Q1FY22 stood at Rs 0.20 Bn

### Future guidance

- Credit growth guidance remains in mid-to-high single digit in FY22.
- Meaningful recovery will start from the second half of FY22 when most of the registrar offices will be opened. Thus, Bank is confident that the FY22 closing GNPA will be lower than the FY21.
- Targeting RoA of 1.5% in the second half of FY23
- Bank is well capitalized and will not require to raise any capital for the next one or one and half year.
- Bank will push the growth pedal only when the situation becomes better.

### Yields, Cost of deposits & NIM

- Average yields on Agri and non-agri gold loans is ~9%
- Cost of deposits can reduce up to 10-15 bps in the next three quarters on back of repricing of old accounts.
- NIM to be around 3.75%-4% in FY22

**Slippages will be moderated and overall Slippages will be lower than FY21 (3% of closing advances).**

**Going forward, ~1 -1.25% additional restructuring will be possible in the coming quarters.**

**SMA 2 stood at 3.16% vs 2% QoQ, lower than pre-covid levels of 5-6%.**

**Credit growth guidance remains in mid-to-high single digit in FY22.**

**Meaningful recovery will start from the second half of FY22 when most of the registrar offices will be opened**

**Cost of deposits can reduce up to 10-15 bps in the next three quarters on back of repricing of old accounts.**

## Valuation and outlook

CUB's asset quality came under pressure in Q1FY22. However, given its proven track record in credit underwriting and unsecured loans of less than 1%, we believe that overall credit loss will be relatively lower in FY22. CUB has all the right ingredients, which include conservative management, unparalleled lending franchise, stable margins, and a well-capitalized balance sheet to support future growth. We expect the bank's RoA/RoE to be around 1.3%/11.5% in FY22 and recover back to 1.5%/13.2% in FY23. At CMP the stock trades at 2.0x its FY22E ABV and 1.7x its FY23E ABV. We assign Accumulate rating with a Target Price of Rs 176/share, valuing the stock at a target multiple of 2x FY22E ABV.

## Quarterly Financials

Financials (Rs Bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Interest Earned	10.49	10.61	10.48	9.76	9.97	-5%	2%
Interest Expended	6.12	5.86	5.59	5.48	5.50	-10%	0%
<b>NII</b>	<b>4.37</b>	<b>4.75</b>	<b>4.89</b>	<b>4.29</b>	<b>4.48</b>	<b>2%</b>	<b>4%</b>
Other Income	1.61	1.69	2.30	1.45	1.96	22%	35%
<b>Net Income</b>	<b>5.98</b>	<b>6.44</b>	<b>7.19</b>	<b>5.74</b>	<b>6.43</b>	<b>8%</b>	<b>12%</b>
Opex	2.42	2.60	2.60	2.89	2.60	8%	-10%
<b>PPOP</b>	<b>3.56</b>	<b>3.85</b>	<b>4.58</b>	<b>2.85</b>	<b>3.83</b>	<b>8%</b>	<b>35%</b>
Provisions	1.57	1.77	2.19	2.39	1.70	8%	-29%
<b>PBT</b>	<b>1.99</b>	<b>2.08</b>	<b>2.40</b>	<b>0.46</b>	<b>2.13</b>	<b>7%</b>	<b>361%</b>
Tax	0.45	0.50	0.70	-0.65	0.40	-11%	-162%
<b>PAT</b>	<b>1.54</b>	<b>1.58</b>	<b>1.70</b>	<b>1.11</b>	<b>1.73</b>	<b>12%</b>	<b>56%</b>
<b>Balance Sheet</b>							
Deposits	4103	4142	4329	4454	4461	8.7%	0.2%
Advances	3454	3544	3650	3702	3640	5.4%	-1.7%
<b>Growth (%)</b>							
Deposits	5.0	2.4	8.7	9.1	8.7	374 bps	-35 bps
Advances	7.2	6.5	7.9	7.1	5.4	-177 bps	-168 bps
<b>Ratios (%)</b>							
GNPA	3.9	3.4	2.9	5.1	5.6	169 bps	48 bps
NNPA	2.1	1.8	1.5	3.0	3.5	138 bps	52 bps
PCR	46.8	48.3	50.8	43.2	39.0	-781 bps	-424 bps
Tier 1	15.7	16.3	16.3	18.5	18.5	282 bps	6 bps
CAR	16.8	17.4	17.4	19.5	19.6	281 bps	6 bps
Cost/Income	40.4	40.3	36.2	50.4	40.5	4 bps	-991 bps
CD Ratio	84.2	85.6	84.3	83.1	81.6	-259 bps	-153 bps
<b>Loan Book Sectoral Deployment (%)</b>							
Agriculture	15.7	11.3	11.3	13.0	13.7	-200 bps	72 bps
MSME	31.9	34.7	34.9	39.6	38.0	611 bps	-152 bps
Large Industries	6.3	5.8	5.1	1.8	1.8	-455 bps	-8 bps
Retail Traders	2.3	1.8	1.5	1.6	2.1	-20 bps	48 bps
Wholesale Traders	13.0	13.0	12.6	12.6	12.3	-73 bps	-26 bps
Commercial Real Estate	8.2	7.7	7.2	6.9	6.4	-179 bps	-48 bps
JL NonAgriculture	2.4	6.2	8.2	9.3	9.9	752 bps	56 bps
Housing Loans	6.6	6.3	6.0	5.7	5.6	-101 bps	-7 bps
Other Personal Loans	2.9	2.7	2.4	2.2	2.6	-24 bps	45 bps
Loans backed by Dep	1.5	1.4	1.3	1.4	1.4	-13 bps	-8 bps
Infrastructure	1.1	1.0	0.9	0.8	0.9	-20 bps	2 bps
NBFC	0.7	0.9	0.8	0.7	0.7	-6 bps	-2 bps
Other (EL, Staff Loan, etc)	7.4	7.2	7.8	4.4	4.7	-273 bps	27 bps

Source: Dalal &amp; Broacha Research, Company

## Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest income	41.7	41.3	44.6	51.3
Interest expense	24.9	23.1	24.3	28.0
<b>NII</b>	<b>16.8</b>	<b>18.3</b>	<b>20.3</b>	<b>23.2</b>
Non-interest income	6.8	7.0	8.0	9.1
<b>Net revenues</b>	<b>23.6</b>	<b>25.3</b>	<b>28.3</b>	<b>32.3</b>
Operating expenses	10.1	10.5	11.5	13.1
<b>PPOP</b>	<b>13.4</b>	<b>14.8</b>	<b>16.8</b>	<b>19.2</b>
Provisions	7.6	7.9	7.3	7.1
<b>PBT</b>	<b>5.9</b>	<b>6.9</b>	<b>9.5</b>	<b>12.2</b>
Tax	1.1	1.0	2.4	3.1
<b>PAT</b>	<b>4.8</b>	<b>5.9</b>	<b>7.1</b>	<b>9.1</b>
<b>Balance sheet</b>				
<b>Balance sheet</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Share capital	0.7	0.7	0.7	0.7
Reserves & surplus	52	58	64	73
<b>Net worth</b>	<b>53</b>	<b>58</b>	<b>65</b>	<b>73</b>
Deposits	408	445	492	559
Borrowings	20	13	12	13
Other liability	16	16	17	18
<b>Total liabilities</b>	<b>497</b>	<b>533</b>	<b>586</b>	<b>664</b>
<b>Fixed assets</b>				
Fixed assets	2	2	2	3
Investments	91	94	104	118
Loans	339	362	387	454
Cash	47	56	73	69
Other assets	17	19	19	21
<b>Total assets</b>	<b>497</b>	<b>533</b>	<b>586</b>	<b>664</b>

Ratios	FY20	FY21	FY22	FY23
<b>Growth (%)</b>				
NII	4.0	9.2	11.2	14.1
PPOP	8.2	10.6	13.1	14.7
PAT	-30.2	24.5	20.1	28.0
Advances	3.8	6.6	7.0	17.3
Deposits	6.2	9.1	10.5	13.7
<b>Spread (%)</b>				
Yield on Funds	9.2	8.4	8.3	8.5
Cost of Funds	6.1	5.2	5.0	5.2
Spread	3.1	3.2	3.3	3.3
NIM	3.7	3.7	3.8	3.9
<b>Asset quality (%)</b>				
Gross NPAs	4.1	5.1	4.2	3.4
Net NPAs	2.3	3.0	2.4	1.9
Provisions	45	43	44	46
<b>Return ratios (%)</b>				
RoE	9.4	10.6	11.5	13.2
RoA	1.0	1.2	1.3	1.5
<b>Per share (Rs)</b>				
EPS	6	8	10	12
BV	72	79	88	99
ABV	61	65	75	88
<b>Valuation (x)</b>				
P/E	23.7	19.1	15.9	12.4
P/BV	2.1	1.9	1.7	1.5
P/ABV	2.5	2.4	2.0	1.7

Source: Dalal & Broacha Research, Company

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Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	Head of Research	<a href="mailto:kunal.bhatia@dalal-broacha.com">kunal.bhatia@dalal-broacha.com</a>	022 67141442	Auto   Auto Ancillary   FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	<a href="mailto:charulata.gaidhani@dalal-broacha.com">charulata.gaidhani@dalal-broacha.com</a>	022 67141446	Pharma   Healthcare
Mr. Mayank Babla	Sr. Analyst	<a href="mailto:mayank.babla@dalal-broacha.com">mayank.babla@dalal-broacha.com</a>	022 67141412	IT   Telecom   Media
Mr. Avinash Tanawade	Sr. Analyst	<a href="mailto:avinash.tanawade@dalal-broacha.com">avinash.tanawade@dalal-broacha.com</a>	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	<a href="mailto:akshay.ashok@dalal-broacha.com">akshay.ashok@dalal-broacha.com</a>	022 67141486	BFSI
Ms. Timshar Dhamodiwala	Associate	<a href="mailto:timshar.dhamodiwala@dalal-broacha.com">timshar.dhamodiwala@dalal-broacha.com</a>	022 67141441	IT   Telecom   Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)