

**City Union Bank (CUBL) has reported strong operating performance supported by higher other income and lower operating expenses. Transactional activities of borrowers have improved and reached near pre-COVID levels, however collection efficiency is still a hurdle as some of the segments like hotel & tourism have not recovered fully.**

- **NII came in at INR 4.9 Bn**, vs 3% QoQ/14% YoY and 2% above our est.
- **Net Income came in at INR 7.2 Bn**, vs 12% QoQ/26% YoY and 11% above our est
- **PPOP came in at INR 4.6 Bn**, 19% QoQ/49% YoY and 20% above our est
- **Provisions came in at INR 2.2 Bn**, vs 23% QoQ / 170% YoY and 33% above our est
- **PAT came in at INR 1.7 Bn**, 8% QoQ / -12% YoY and 5% above our est
- **EPS stood at INR 2.3** vs INR 2.1/ INR 2.6 in Q2FY21 / Q3FY20 respectively

**Financial Highlights**

- Bank's GNPA's sequentially down by 50 bps at 2.9% and NNPA's down by 34 bps to 1.47% on account of standstill levied by the Supreme Court. Excluding the same, net NPAs would have been 3.37% in Q3FY21. Bank enhanced its COVID related provisions by INR1.25 bn, taking cumulative provisions to Rs 4.65 bn (1.21% of loans).
- Bank's asset quality will remain under pressure in near term. Management expects the slippages to be around 3%-3.5%, while the restructuring at 5-6% of the portfolio. However, we strongly believe that overall credit loss will be relatively lower as 99% of total lending is secured in nature.
- Loan book growth was above industry average at 7.9% YoY/3.0% QoQ to Rs 365.03 Bn, primarily came from ECLGS accounts and gold loan disbursements. Increase in LTV of personal gold loans (to 90%) led to shift from agri-gold loans to personal gold loans. We are factoring in 8% loan growth for FY21 and expect it to pick up pace from H2FY22.
- The bank is replacing its term deposits with low cost CASA deposit and maintaining CD ratio at 84-85%, which helped NIMs to stay resilient. Bank's deposit grew by 9%YoY/5% QoQ led by CASA growth of 28% YoY/12% QoQ taking CASA ratio at 27.5% (Vs 23.4% YoY)

**Financial Summary**

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	16.8	19.0	21.3	24.6
Adjusted net profit	4.8	5.1	7.8	9.9
Net worth	53	58	65	74
EPS (Rs)	6	7	11	14
Growth (%)	-30	8	51	28
P/E (x)	28	26	17	14
P/Adj BV (x)	3.0	2.9	2.4	2.0
RoA (%)	1.0	1.0	1.4	1.5
RoE (%)	9.4	9.3	12.7	14.3

Source: Dalal & Broacha Research, Company

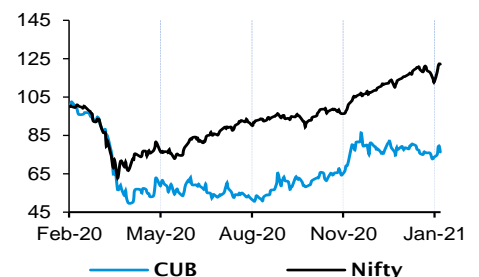
Rating	TP (Rs)	Up/Dn (%)
<b>ACCUMULATE</b>	<b>205</b>	<b>13</b>

**Market data**

<b>Current price</b>	<b>Rs</b>	<b>182</b>
Market Cap (Rs.Bn)	(Rs Bn)	129
Market Cap (US\$ Mn)	(US\$ Mn)	177
Face Value	Rs	1
52 Weeks High/Low	Rs	239/110
Average Daily Volume	('000)	2411
BSE Code		532210
Bloomberg		CUBK:IN

Source: Bloomberg

**One Year Performance**



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
FII	18.65	18.67
DII	37.58	27.52
Others	43.77	53.81
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Highlights of the Conference Call

### Asset quality

- Reduction in SMA balance is pointing towards improvement in activity levels.
- During Q3FY21, Bank has restructured 60 standard accounts to the tune of Rs 3.21 Bn, taking total restructured accounts to 233 amounting to Rs.8.07 Bn. As of Dec 2020, total restructured standard advances as a percentage of gross advances stood at 2.21%.
- Bank is also looking to restructured 102 accounts worth Rs 5.17 Bn in MSME category and 1224 accounts worth Rs 5.2 Bn. Overall, the bank expects 5-6% of the portfolio to be restructured in FY21.
- Incremental slippages (without Supreme Court standstill) for 9MFY21 stood at Rs 11.5 Bn.
- NNPA would have been 3.37% as per the proforma approach.

**As on Dec 2020, total restructured account standard at 2.21% of advances**

**Overall, the bank expects 5-6% of portfolio to be restructured in FY21**

### Future guidance

- Loan growth to remain in high single digit in FY21; low- to mid-double-digit in FY22
- Employee hike was 15%, in line with industry
- RoA between 1.1-1.3% in FY21
- Cost to income ratio between 42-44% in upcoming qtrs.
- NIM to be in the range of 3.8% to 4%
- slippages to be around 3%-3.5% in FY21
- Credit cost to be normalized from H2FY22

**Loan growth high single digit in FY21; low-to-mid-double-digit in FY22**

**Credit cost to be normalized from H2FY22**

### Other Highlights

- Interest reversals worth ~Rs 550 Mn has been in Q2FY21 & Q3FY21
- As of Q3FY21, the bank has sanctioned Rs 20.79 Bn & disbursed Rs 19.11 Bn under ECLGS schemes to eligible MSME business segments.

## Valuation and outlook

We expect a spike in GNPA's in FY21 due to the Covid-19 led lockdown and its subsequent impact on businesses, which is applicable to the entire lending industry. 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. 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%/9.3% in FY21 and recover back to 1.4%/12.7% in FY22. At CMP the stock trades at 2.4x its FY22E ABV and 2.0x its FY23E ABV. We assign Accumulate rating with a Target Price of Rs 205/share, valuing the stock at a target multiple of 2.3x FY22E ABV.

## Quarterly Financials

Financials (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
Interest Earned	10.6	10.4	10.5	10.6	10.5	-1%	-1%
Interest Expended	6.3	6.2	6.1	5.9	5.6	-12%	-5%
<b>NII</b>	<b>4.3</b>	<b>4.2</b>	<b>4.4</b>	<b>4.8</b>	<b>4.9</b>	<b>14%</b>	<b>3%</b>
Other Income	1.4	1.8	1.6	1.7	2.3	61%	36%
<b>Net Income</b>	<b>5.7</b>	<b>6.0</b>	<b>6.0</b>	<b>6.4</b>	<b>7.2</b>	<b>26%</b>	<b>12%</b>
Opex	2.6	2.6	2.4	2.6	2.6	0%	0%
<b>PPOP</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>	<b>4.6</b>	<b>49%</b>	<b>19%</b>
Provisions	0.8	4.5	1.6	1.8	2.2	170%	23%
<b>PBT</b>	<b>2.3</b>	<b>-1.2</b>	<b>2.0</b>	<b>2.1</b>	<b>2.4</b>	<b>5%</b>	<b>16%</b>
Tax	0.4	-0.2	0.5	0.5	0.7	100%	40%
<b>PAT</b>	<b>1.9</b>	<b>-1.0</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>-12%</b>	<b>8%</b>
<b>Balance Sheet</b>							
Deposits	3981	4083	4103	4142	4329	8.7%	4.5%
Advances	3383	3458	3454	3544	3650	7.9%	3.0%
<b>Growth (%)</b>							
Deposits	12.1	6.2	5.0	2.4	8.7	-340 bps	634 bps
Advances	10.4	4.6	7.2	6.5	7.9	-250 bps	143 bps
<b>Ratios (%)</b>							
GNPA	3.5	4.1	3.9	3.4	2.9	-56 bps	-50 bps
NNPA	2.0	2.3	2.1	1.8	1.5	-48 bps	-34 bps
PCR	45.2	44.9	46.8	48.3	50.8	559 bps	254 bps
Tier 1	14.9	15.8	15.7	16.3	16.3	145 bps	2 bps
CAR	15.4	16.8	16.8	17.4	17.4	198 bps	3 bps
Cost/Income	45.9	44.0	40.4	40.3	36.2	-963 bps	-409 bps
CD Ratio	85.0	84.7	84.2	85.6	84.3	-64 bps	-123 bps
<b>Loan Book Sectoral Deployment (%)</b>							
Agriculture	13.5	15.8	15.7	11.3	11.3	-222 bps	-3 bps
MSME	33.0	31.1	31.9	34.7	34.9	188 bps	17 bps
Large Industries	6.5	6.2	6.3	5.8	5.1	-138 bps	-66 bps
Retail Traders	2.9	2.7	2.3	1.8	1.5	-137 bps	-30 bps
Wholesale Traders	13.9	13.9	13.0	13.0	12.6	-130 bps	-41 bps
Commercial Real Estate	7.4	8.0	8.2	7.7	7.2	-13 bps	-45 bps
JL NonAgriculture	1.6	2.1	2.4	6.2	8.2	653 bps	192 bps
Housing Loans	6.6	6.6	6.6	6.3	6.0	-68 bps	-37 bps
Other Personal Loans	3.1	2.9	2.9	2.7	2.4	-66 bps	-24 bps
Loans backed by Deposits	1.6	1.7	1.5	1.4	1.3	-26 bps	-7 bps
Infrastructure	1.0	1.1	1.1	1.0	0.9	-14 bps	-10 bps
NBFC	1.0	0.8	0.7	0.9	0.8	-21 bps	-7 bps
Others (EL, Staff Loan, etc)	7.9	7.1	7.4	7.2	7.8	-7 bps	62 bps

Source: Dalal & Broacha Research, Company

## Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	41.7	43.4	47.1	56.0	<b>Growth (%)</b>				
Interest expense	24.9	24.5	25.8	31.4	NII	4	13	13	15
<b>NII</b>	<b>16.8</b>	<b>19.0</b>	<b>21.3</b>	<b>24.6</b>	PPOP	8	15	13	16
Non-interest income	6.8	7.0	8.0	9.4	PAT	-30	8	51	28
<b>Net revenues</b>	<b>23.6</b>	<b>25.9</b>	<b>29.3</b>	<b>34.0</b>	Advances	4	8	15	18
Operating expenses	10.1	10.6	12.0	13.9	Deposits	6	7	16	17
<b>PPOP</b>	<b>13.4</b>	<b>15.4</b>	<b>17.3</b>	<b>20.1</b>	<b>Spread (%)</b>				
Provisions	7.6	8.5	6.9	6.8	Yield on Funds	9.2	8.8	8.7	8.9
<b>PBT</b>	<b>5.9</b>	<b>6.9</b>	<b>10.4</b>	<b>13.3</b>	Cost of Funds	6.1	5.6	5.3	5.6
Tax	1.1	1.7	2.6	3.3	Spread	3.1	3.3	3.3	3.3
<b>PAT</b>	<b>4.8</b>	<b>5.1</b>	<b>7.8</b>	<b>9.9</b>	NIM	3.7	3.9	3.9	3.9
<b>Balance sheet</b>					<b>Asset quality (%)</b>				
Share capital	0.7	0.7	0.7	0.7	Gross NPAs	4.1	5.8	4.4	3.1
Reserves & surplus	52	57	64	73	Net NPAs	2.3	3.2	2.4	1.7
<b>Net worth</b>	<b>53</b>	<b>58</b>	<b>65</b>	<b>74</b>	Provisions	45	46	47	47
Deposits	408	438	508	596	<b>Return ratios (%)</b>				
Borrowings	20	12	11	12	RoE	9.4	9.3	12.7	14.3
Other liability	16	18	19	21	RoA	1.0	1.0	1.4	1.5
<b>Total liabilities</b>	<b>497</b>	<b>526</b>	<b>603</b>	<b>703</b>	<b>Per share (Rs)</b>				
Fixed assets	2	3	3	3	EPS	6	7	11	14
Investments	91	99	114	132	BV	72	78	88	101
Loans	339	366	420	496	ABV	61	62	75	89
Cash	47	41	49	53	<b>Valuation (x)</b>				
Other assets	17	18	18	19	P/E	28.2	26.1	17.3	13.5
<b>Total assets</b>	<b>497</b>	<b>526</b>	<b>603</b>	<b>703</b>	P/BV	2.5	2.3	2.1	1.8
					P/ABV	3.0	2.9	2.4	2.0

Source: Dalal & Broacha Research, Company

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