



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Q2FY20 Result update@ Dalal & Broacha

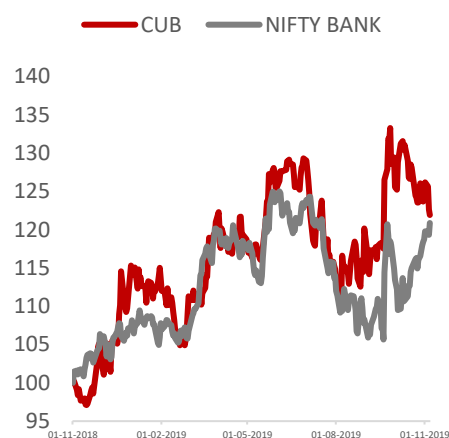
Not Rated

Current Price	212
52 Week Range	227/163

Key Share Data

Market Cap (Rs.bn)	155.73
Market Cap (US\$ Bn)	2.19
No of o/s shares (Mn)	839
Face Value	1
BSE Code	532210
NSE Code	CUB
Bloomberg	CUB:IN

Price performance



% Shareholding	Sep-19	Jun-19
FII	22.86	24.19
DII	25.60	24.03
Others	51.54	51.78
Total	100	100

City Union Bank (CUB) has reported a stable set of numbers for Q2 FY20, with PPOP growth of 17% YoY (-1.4% QoQ) at Rs 3465 Mn and PAT growth of 15% YoY/ 4% QoQ at Rs 1935 Mn. Credit growth of the bank remained tepid at 12%, as management focused on prudent and conservative growth in specified target segments. Despite of some signs of a slowdown, bank's customers are not facing major issues. Healthy deposit growth (+17% YoY) was led by Savings account (+26% YoY) and current account (+16% YoY).

Net Interest Margin for Q2FY 20 has declined by 37 bps YoY/ 20 bps QoQ to 3.91%, mainly due to decline in yields on advances by 10 bps YoY/ 21 bps QoQ and reduction in CD ratio from 86% in Q2FY19 to 82% in Q2FY20. Other income was higher (+64% YoY) due to higher treasury gains and recovery from write-offs. Capital position remains strong, with CAR stood at 15.49% (vs 15.11% YoY/ 15.68% QoQ), of which Tier I capital was 14.96% (vs 14.71% YoY/ 15.17% QoQ) and Tier II capital was 0.5% (vs 0.4% YoY/0.5% QoQ). We expect the bank's RoA / RoE to be maintained at around 1.5% / 15% over FY19-21E.

Stable Business momentum: Bank's advances grew by 12% YoY/3% QoQ stood at Rs 33,279 Cr, mainly led by commercial real estate (+60% YoY/weightage 7%), NBFC (+57% YoY/ weightage 1.1%), wholesale traders (+13% YoY/ weightage 13.7%) and MSME (+10% YoY/ weightage 33.3%). While bank's customers are confident about viability of their business, most of them are not investing now for growth. On the liability side, Bank's deposit grew by 17% YoY/4% QoQ, with CASA growth of 22% YoY/9% QoQ taking CASA ratio at 24.7% (vs 23.4% QoQ/23.6% YoY). Bank has reduced term deposit rates twice in the first half of FY20, but term deposit accretion continued to remain robust at 16% YoY in Q2FY20.

Asset quality largely stable: Bank's asset quality during the quarter was largely stable, with GNPA at 3.41% (up by 7 bps QoQ) and NNPA at 1.90% (up by 1 bps QoQ). In absolute terms, GNPA's increased by 6% QoQ to Rs 11354 Mn and NNPA's increased by 4% QoQ to Rs 6241 Mn in Q2FY20. Slippages during the quarter stood at Rs 2,003 Mn Vs Rs 1,999 Mn in Q1FY20 & Rs 1362 Mn in Q2FY19. Management expects the slippages to remain at the current level (around Rs 2000 Mn) in next 2 to 3 quarters, while they are targeting recovery of Rs 1500 Mn per quarter. Provisions for bad loans stood at Rs 1080 Mn, which grew by 59% YoY and (7% QoQ). With this, CUB's PCR stood at 45% (up by 78 bps QoQ). During the quarter, Bank has restructured 23 accounts amounting to Rs 491 Mn, taking the total accounts to 121 accounts with o/s balance of Rs 1177 Mn as on Q2FY20. The outstanding standard restructured accounts stood at 0.35% in Q2FY20 vs 0.20% in Q1 FY20.

Valuation and Outlook

CUB continues to report stable set of performance, with RoA & RoE remaining ~1.5% & ~15 over past many quarters, reflecting management strength in developing a business model that can sustain an adverse business cycle. However, we believe at current valuation (3.2x/2.8x FY20E/FY21E ABVPS) largely captures the major positives and leaves limited room for upside in the near term.

Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	PB (X)	ROE
FY19	16115	13	12400	3	6829	15	58	3.7	15.2
FY20E	17860	11	14401	16	7813	14	65	3.2	15.0
FY21E	21132	18	17072	19	9001	15	76	2.8	15.1



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Exhibit 1: Asset Quality remain stable

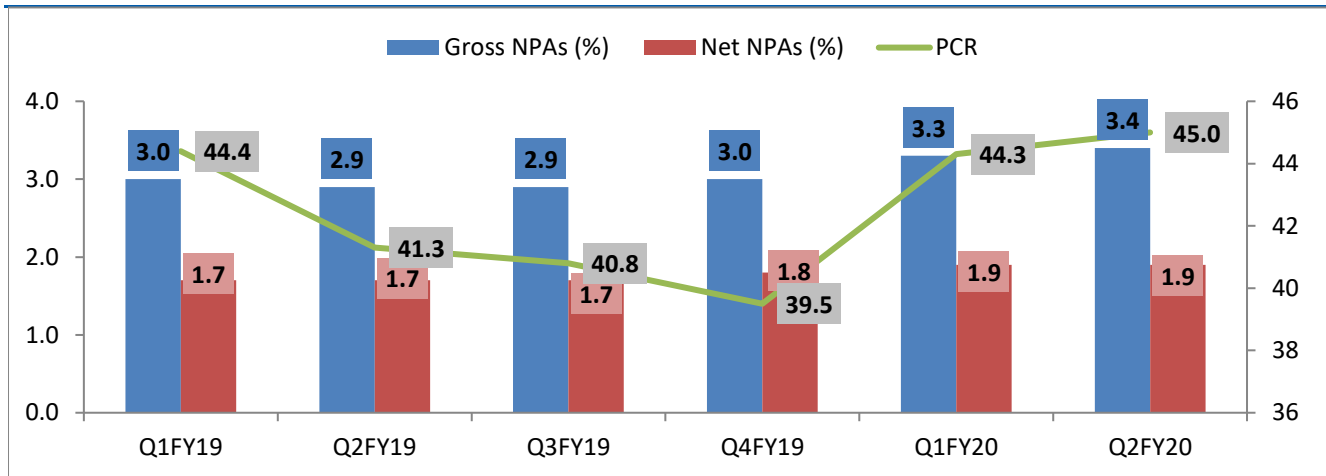
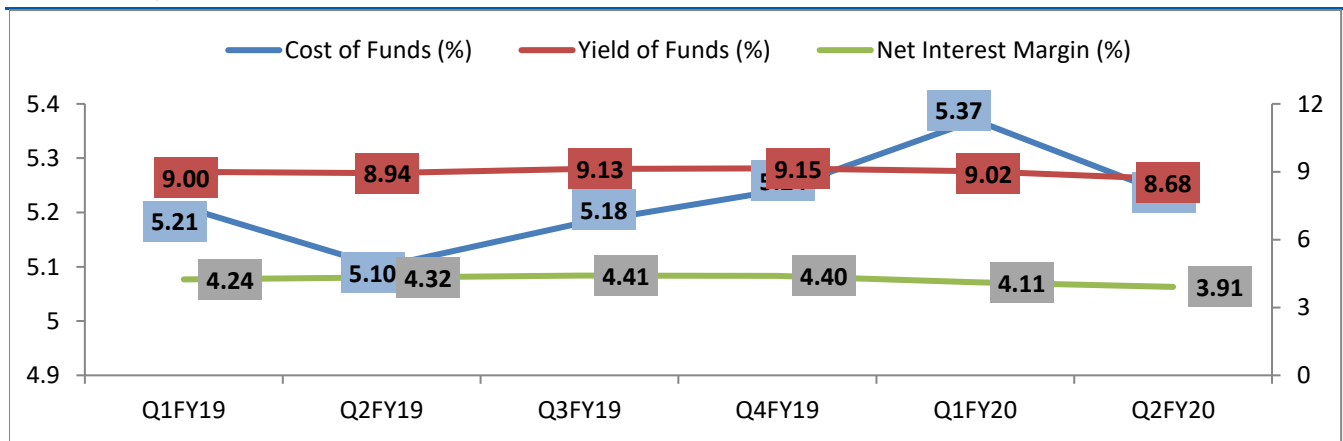
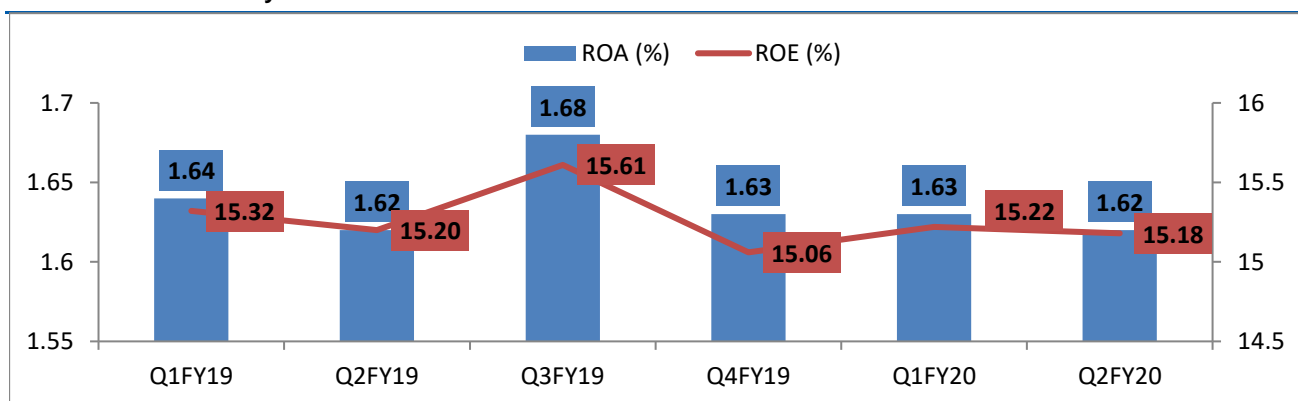


Exhibit 2: Key Business Indicators



Source: D&B Research, Company

Exhibit 3: sustainability in return ratios



Source: D&B Research, Company



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P&L (Rs mn)	FY18	FY19	FY20	FY21
Interest Earned	34024	37672	42490	50864
Interest Expended	19721	21557	24631	29732
NII	14303	16115	17860	21132
Other Income	5321	5144	6828	7785
Net Income	19624	21259	24688	28917
Opex	7546	8859	10287	11845
PPOP	12078	12400	14401	17072
Provisions	4178	3151	4222	5039
PBT	7900	9249	10178	12033
Tax	1980	2420	2365	3032
PAT	5920	6829	7813	9001

BS (Rs mn)	FY18	FY19	FY20	FY21
Capital	665	735	735	735
Reserves	40968	47673	54900	63226
Deposits	328526	384479	448632	527889
Borrowings	17359	4809	5050	5554
Other Liabilities	11855	14893	19115	24154
Total	399372	452589	528433	621559
Cash & Bank	26364	29633	36894	45326
Investments	78791	77122	98699	117191
Advances	278528	326733	371870	435842
Fixed Assets	2231	2500	2700	2916
Other Assets	13458	16600	18269	20283
Total	399372	452589	528433	621559

Ratios (%)	FY18	FY19	FY20	FY21
Growth (%)				
NII	19.3	12.7	10.8	18.3
Operating profit	21.5	2.7	16.1	18.6
Net profit	17.7	15.3	14.4	15.2
Advances	16.9	17.3	13.8	17.2
Deposits	9.1	17.0	16.7	17.7
Returns (%)				
ROA	1.6	1.6	1.6	1.6
ROE	15.3	15.2	15.0	15.1
Asset quality (%)				
GNPA	3.0	3.0	3.3	3.1
NNPA	1.7	1.8	2.0	1.8
PCR	44	39	41	41

Ratios (%)	FY18	FY19	FY20	FY21
Per share (Rs)				
EPS	9	9	11	12
ABVPS	55	58	65	76
P/E	24	23	20	17
P/ABVPS	3.8	3.7	3.2	2.8
Operating Ratio (%)				
NIM	4.0	3.9	3.8	3.8
Cost to Income Ratio	38.5	41.7	41.7	41.0
Credit to Deposit Ratio	84.8	85.0	82.9	82.6
CASA	24.2	25.2	26.3	27.3
Opex/ Avg assets	2.0	2.1	2.1	2.1
RWA / Assets	65	70	73	74
CAR	16	16	15	14



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141439	Midcaps
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T/Media/Telecom
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	Nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141432	Associate

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: research@dalalbroachaindia.com, equity.research@dalal-broacha.com