

Retail Equity Research

City Union Bank Ltd.


Banking

BSE CODE : 532210 NSE CODE: CUB

BLOOMBERG CODE: CUBK:IN SENSEX : 77,479

ACCUMULATE

12 Months Investment Period Rating as per Small Cap

CMP Rs. 166 TARGET Rs. 185 RETURN 11% 

(Closing: 20-06-2024)

KEY CHANGES: TARGET  RATING  EARNINGS 

New channels to support growth.....

City Union Bank Ltd. (CUB), the oldest private sector bank in India, is a mid-sized commercial bank headquartered in Tamil Nadu, with a network of 800 branches spread across the country and a loan book size of Rs.46,482cr.

- Loan growth was healthy on a sequential basis at 5.6%, but it was mediocre on a YoY basis at 5.7%.
- The regulatory actions impacted the gold portfolio, forcing the bank to trim down its Agri-gold loans. Yet, its non-Agri Gold loan portfolio grew by 21%YoY. Currently, gold portfolios constitute 25% of the total loan book.
- Yield on advances increased by 23bps sequentially to 9.85%, and the cost of deposit only increased by 8bps, resulting in the NIM expanding by 16bps sequentially to 3.66%.
- Asset quality continues to improve, with GNPA/NNPA standing at 3.99%/1.93%, respectively, compared to 4.47%/ 2.14% during Q3FY24. We expect the current trend of reducing slippages and increasing recoveries to continue in FY25 as well.
- While the bank refrained from providing loan growth guidance, we expect the loan growth to accelerate to the previous guidance of 12 –13% in FY25–26. We estimate ROA to remain broadly stable at 1.4 –1.5% by FY25-26E. Therefore, we reiterate our rating of Accumulate with a revised target price of Rs.185, based on 1.3x FY26E BVPS.

Reviving business model

In Q4FY24, the bank's gross advances grew 5.7% QoQ but remained flat YoY. The bank is focusing on achieving double-digit growth soon. Regulatory actions impacted the Gold KCC product, now fully run-down, with demand redirected to agri- or non-agri-gold loans. CUB has nearly finalized processes for secured retail products like LAP, affordable housing, micro-LAP, etc. On the deposit front, CASA grew 8.9% YoY, and fixed deposits increased by 5.1% YoY, with total deposits up 6.2% YoY. The CASA ratio rose to 30.6% from 29.9% in Q4FY23. We expect advances to grow moderately at 12%-13% over FY25-26E. The capital adequacy ratio is 20.9%.

ROA maintained at its long term average

Net Interest Income (NII) for the quarter grew by 5.9% QoQ as interest income witnessed a growth of 3.6% QoQ and interest expense increased by 2.1% QoQ. The Net Interest Margin showed a sequential increase of 16bps to 3.66%. The cost of deposit rose by 8bps sequentially to 5.75%, while the yield on advances increased by 23bps sequentially to 9.85%. The cost-to-income ratio has risen to 51.26%, compared to 41.2% in Q4FY23, mainly due to continued investment in products, people, channels, and technology. Although the cost-to-income ratio is likely to remain high, we expect the ROA to stay stable at 1.4-1.5% for FY25-26E.

Asset quality expected to improve gradually

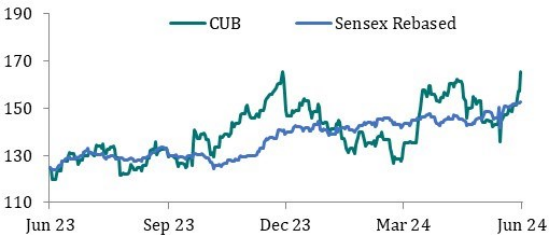
During the quarter, asset quality improved significantly. Total slippages for the quarter amounted to Rs. 219.4 crore. The GNPA and NNPA for the quarter were 3.99% and 1.93%, respectively, compared to 4.37% and 2.31% in Q4FY23. The Provision Coverage Ratio has also improved to 72%, up from 69% in Q4FY23.

Outlook and valuation

The receding impact of legacy issues, improved IT systems, and a focus on new products/channels provide a clear path to growth. This growth is expected to accelerate to ~12-13% YoY over FY25/26E. The loan-to-deposit ratio, currently at 81%, remains comfortable. Therefore, we reiterate our Accumulate rating with a revised target price of Rs.185, based on 1.3x FY26E BVPS.

Company Data			
Market Cap (Rs cr)	12,306.3		
Outstanding Shares (cr)	74.1		
Free Float (%)	97.0		
Dividend Yield (%)	0.7		
52 week high (Rs)	167.7		
52 week low (Rs)	119.5		
6m average volume (cr)	0.1		
Beta	1.4		
Face value (Rs)	1.0		
Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	-	-	-
FII's	23.7	26.6	27.0
MFs/Institutions	33.2	32.4	29.5
Public/others	43.1	41.0	43.5
Total	100.0	100.0	100.0
Promoter pledge	-	-	-
Price Performance	3 Month	6 Month	1 Year
Absolute Return	22.2%	13.0%	32.4%
Absolute Sensex	6.4%	9.0%	22.0%
Relative Return*	15.8%	4.0%	10.4%

*over or under performance to benchmark index



Standalone (Rs cr)	FY24A	FY25E	FY26E
NII	2,123	2,342	2,463
Growth(%)	-1.8	10.3	5.1
NIM(%)	3.6	3.6	3.6
Provisions	286	280	294
Adj. PAT	1,016	1,075	1,243
Growth(%)	8.3	5.9	15.6
Adj. EPS	13.6	14.4	16.7
Growth(%)	8.3	5.9	15.6
BVPS	113.4	126.4	141.7
Adj BVPS	98.2	111.3	128.0
P/E	12.3	11.6	10.0
P/B	1.5	1.3	1.2
Adj. P/B	1.7	1.5	1.3
ROE (%)	12.8	12.1	12.5

Quarterly Financials (Standalone)

(Rs.cr)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Interest Income	1,374	1,228	11.9	1,326	3.6	5,271	4,714	11.8
Interest Expense	828	714	15.9	810	2.1	3,147	2,552	23.3
Net Interest Income (NII)	547	514	6.3	516	5.9	2,123	2,163	-1.8
Fee and Other Income	175	195	-10.1	193	-9.1	742	810	-8.5
Total Income	722	709	1.8	709	1.8	2,865	2,973	-3.6
Expenditure	370	292	26.6	345	7.3	1,348	1,155	16.7
Pre-Provision Profit	352	417	-15.6	364	-3.4	1,517	1,818	-16.6
Provision	32	159	-79.9	46	-30.4	286	641	-55.3
PBT	320	258	23.9	318	0.6	1,231	1,177	4.5
Tax	65	40	62.5	65	0.0	215	240	-10.4
Reported PAT	255	218	16.9	253	0.7	1,016	937	8.3
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	255	218	16.9	253	0.7	1,016	937	8.3
Diluted EPS (Rs)	3.42	2.9	17.1	3.4	0.9	13.6	12.6	8.3

Change in Estimates

	Old Estimates		New Estimates		Change(%)	
Year / Rs cr	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	2,674	-	2,342	2,463	-12.4	-
Net Interest Margin (%)	4.1	-	3.6	3.6	-54	-
Pre-Provision Profit	2,268	-	1,714	1,951	-24.4	-
Adj. PAT	1,255	-	1,075	1,243	-14.3	-
Diluted EPS (Rs)	17.4	-	14.4	16.7	-17.2	-

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	4,105	4,714	5,271	5,774	5,989
Interest Expense	2,188	2,552	3,147	3,431	3,527
Net Int. Income	1,916	2,163	2,123	2,342	2,463
Change(%)	4.7	12.9	-1.8	10.3	5.1
Non Int. Income	759	810	742	908	1133
Operating Income	2,676	2,973	2,865	3,250	3,596
Change(%)	6.2	11.1	-3.6	13.4	10.6
Operating Exp.	1,080	1,155	1,348	1,537	1,645
Pre Prov. Profit	1,595	1,818	1,517	1,714	1,951
Prov. & Conting.	610	641	286	280	294
PBT	985	1,177	1,231	1,434	1,657
Change(%)	42.2	19.5	4.5	16.5	15.6
Tax	225	240	215	358	414
Tax Rate(%)	22.8	20.4	25.5	25.0	25.0
Net Profit	760	937	1016	1075	1243
Adj*	-	-	-	-	-
Adj. Net Profit	760	937	1,016	1,075	1,243
Change(%)	28.2	23.3	8.3	5.9	15.6
No. of shares (Cr)	74	74	74	74	74
EPS (Rs)	10.2	12.6	13.6	14.4	16.7
Change(%)	27.7	23.5	8.3	5.9	15.6
DPS (Rs)	0.3	1.0	1.0	1.5	1.5

BALANCE SHEET

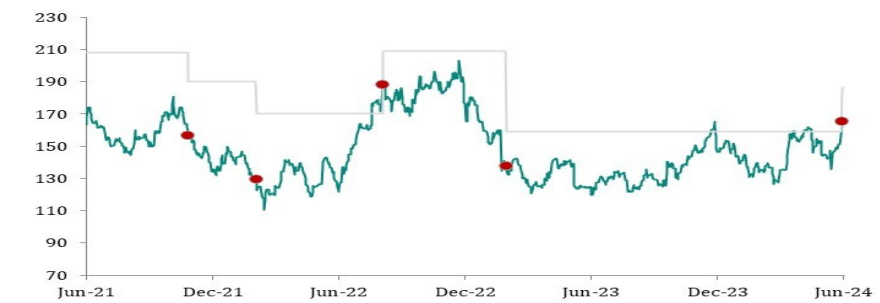
Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	6,687	3,302	4,615	5,633	4,998
Loans & Advances	40,358	43,053	45,526	50,970	57,822
Investments	12,221	14,333	15,664	17,077	18,849
Net Fixed Assets	215	239	270	293	320
Other Assets	2,050	5,667	4,750	4,896	5,285
Total Assets	61,531	66,595	70,826	78,870	87,274
Deposits	47,690	52,398	55,657	62,028	68,591
Debt Funds	5,312	4,688	4,724	5,004	5,551
Other Liabilities and provision	1,944	2,051	2,044	2,472	2,635
Equity Capital	74	74	74	74	74
Reserves & Surplus	6,512	7,383	8,327	9,292	10,422
Shareholder's Funds	6,586	7,457	8,401	9,366	10,496
Total Liabilities	61,531	66,595	70,826	78,870	87,274
BVPS (Rs)	89	101	113.4	126	142
Change(%)	11.9	13.1	12.6	11.5	12.1
Adj. BVPS (Rs)	73	85	98	111	128
Change(%)	12.4	16.6	15.5	13.3	15.0

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
Interest yield (%)	8.4	8.6	8.9	8.9	8.8
Cost of funds (%)	4.4	4.8	5.8	5.6	5.0
Spread(%)	3.9	3.8	3.1	3.3	3.8
NIM (%)	3.9	3.9	3.6	3.6	3.6
ROE (%)	12.2	13.4	12.8	12.1	12.5
ROA(%)	1.3	1.5	1.5	1.4	1.5
Business Ratios					
Loan growth (%)	11.6	6.7	5.7	12.0	13.4
Deposit growth (%)	7.1	9.9	6.2	11.4	10.6
Operating Ratios					
Cost to Income (%)	40.4	38.9	47.1	47.3	45.8
CASA (%)	32.6	31.5	31.3	29.6	29.1
Asset Quality					
GNPA (%)	4.7	4.4	4.0	3.6	3.6
NNPA (%)	2.9	2.3	1.9	2.0	1.9
Capital Adequacy					
CAR (%)	20.9	20.9	20.9	20.5	20.1
Valuation					
P/E (x)	16.3	13.2	12.2	11.5	10.0
P/B (x)	1.9	1.6	1.5	1.3	1.2
Adj. P/B (x)	2.3	2.0	1.7	1.5	1.3



Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
02.Jun.21	Buy	208
17.Nov.21	Buy	190
23.Feb.22	Buy	170
26.Aug.22	Accumulate	209
20.Feb.23	Accumulate	159
20. Jun. 24	Accumulate	185

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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