

August 6, 2012

City Union Bank (CITUNI)

₹ 53

WHAT'S CHANGED...

PRICE TARGET Changed from ₹ 57 to ₹ 60
 EPS (FY13E) Changed from ₹ 7.2 to ₹ 7.5
 EPS (FY14E) Changed from ₹ 9.0 to ₹ 8.7
 RATING Changed from Hold to BUY

Strong asset growth, return ratios maintained

City Union Bank (CUB) posted a strong all-round performance. Other income grew at a robust pace of 36.6% YoY led by growth in CEB income (comprises 64% of other income) of 25.7% YoY to ₹ 40 crore. Considering strong growth in the business, we expect fee income to stay healthy in FY13E. NII grew below our expectations as NIM dipped 21 bps QoQ to 3.2% due to higher agri disbursement. The asset quality remained stable despite concerns on textile portfolio (8.8% of credit). We had factored in capital infusion of ₹ 400 crore in FY13. However, CUB has filed documents to raise ₹ 250 crore via a rights issue. We now factor in capital infusion of ₹ 250 crore in FY13 and further ₹ 250 crore (via QIP) in FY14. Asset growth of 25%+ & RoA of 1.5%+ makes CUB one of our top picks.

Business growth strong, asset quality stable

Credit growth remained strong at 33.2% YoY to ₹ 12773.2 crore (up by ₹ 635.7 crore). Incrementally, major lending was done to the SME and agri segment of ₹ 182.7 crore and ₹ 150.1 crore, respectively. Agri is a low yielding portfolio, which caused 45 bps QoQ decline in YoA to 13.4%, thereby leading to 21 bps QoQ dip in NIM to 3.2%. Asset quality was stable with GNPA rising by ₹ 13.6 crore QoQ to ₹ 137.2 crore. Slippages were seen across the segment. Outstanding restructured assets increased by ₹ 22.3 crore QoQ to ₹ 290.8 crore. Two major accounts belonging to the paper mill and hospital segments were restructured.

Business outlook

CUB is one of the oldest banks with 100+ years of existence. Even now, it continues to focus on its strength in Tamil Nadu (TN). It aims to reach 500 branches (now 303) in FY15E with 40-50% of incremental branch addition from TN (now 200). These branch additions would support business growth of 24.8% CAGR to ₹ 44387 crore over FY12-14E. It has consistently maintained NIM above 3% over several quarters. Considering CUB's strong presence in TN, serving niche clients from SME segment, we believe it is relatively better placed to manage NPAs.

Best return ratios among peer depicts CUB's efficiency

The bank is an efficient user of capital as depicted in consistent return ratios of RoA at 1.5%+ and RoE at 20%+. We expect healthy PAT CAGR of 25.4% to ₹ 442.4 crore, over FY12-14E. We are upgrading the multiple from 1.2x to 1.3x FY14E ABV as the bank continues to maintain healthy asset growth and return ratios. Recommend **BUY** with revised TP of ₹ 60.

Exhibit 1: Financial Performance

₹ crore	Q1FY13	Q1FY13E	Q1FY12	Q4FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	137.9	143.2	120.0	136.7	14.9	0.9
Other Income	62.7	55.1	45.9	61.2	36.6	2.4
PPP	114.2	116.7	106.4	114.2	7.3	-0.1
PAT	73.9	73.0	58.5	72.0	26.3	2.6

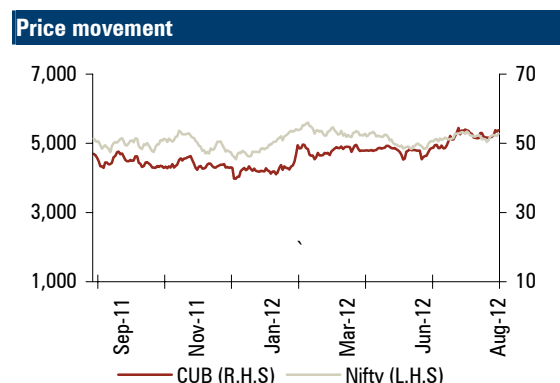
Source: Company Quarterly Presentation, ICICIdirect.com Research

Rating matrix				
Rating	:	Buy		
Target	:	₹ 60		
Target Period	:	12 months		
Potential Upside	:	12%		

Key Financials				
₹ Crore	FY11	FY12	FY13E	FY14E
NII	420.0	500.0	598.6	761.1
PPP	361.0	427.5	517.6	658
PAT	215.1	281.5	349.8	442.4

Valuation summary				
	FY11	FY12	FY13E	FY14E
NP (₹ crore)	215.1	281.5	349.8	442.4
EPS (₹)	5.3	6.9	7.5	8.7
Growth (%)	38.9	29.9	8.5	16.1
P/E (x)	10.1	7.8	7.1	6.2
ABV (₹)	23.7	29.7	37.3	46.5
Price / Book (x)	2.2	1.7	1.4	1.1
P/ABV (x)	2.3	1.8	1.4	1.2
GNPA (%)	1.2	1.0	1.1	1.0
NNPA (%)	0.5	0.4	0.5	0.5
RoNA (%)	1.6	1.7	1.7	1.7
RoE (%)	23.5	24.8	22.6	20.6

Stock data	
Market Capitalisation	₹ 1864 crore
GNPA (Q1FY13)	₹ 137 crore
NNPA (Q1FY13)	₹ 64 crore
NIM (Q1FY13)	3.2%
52 week H/L	55/39
Equity Capital	₹ 41 crore
Face value	₹ 1
DII Holding (%)	7.3
FII Holding (%)	21.8



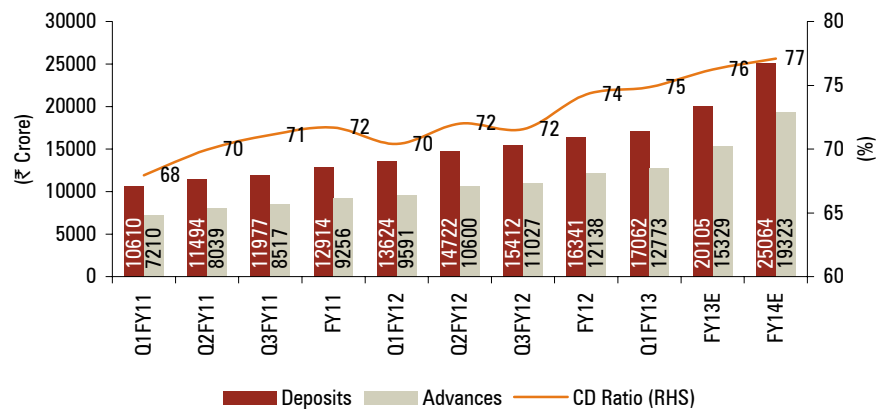
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Exhibit 2: Assumptions table

Particulars	FY11	FY12	FY13E	FY14E
Credit growth (%)	35.4	31.1	26.3	26.1
Deposit growth (%)	25.6	26.5	23.0	24.7
CASA ratio (%)	19.6	18.2	17.5	17.3
NIM calculated (%)	3.4	3.2	3.0	3.1
Cost to income ratio (%)	37.5	39.6	40.5	40.1
GNPA (₹ crore)	112.5	123.5	161.8	194.7
NNPA (₹ crore)	48.4	54.0	83.2	106.2
Slippage ratio (%)	1.8	1.6	1.8	1.7
Credit cost (%)	0.8	0.5	0.5	0.4

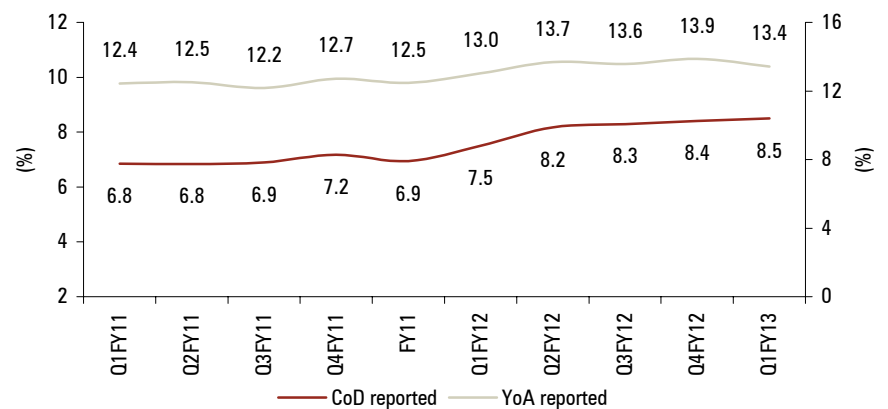
Source: Company, ICICIdirect.com Research

Exhibit 3: Business expected to grow at 24.8% CAGR over FY12-14E...



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 4: YoA dips 45 bps while CoD inches up 9 bps QoQ leading to 21 bps drop in NIM to 3.2%



Source: Company Quarterly Presentation, ICICIdirect.com Research

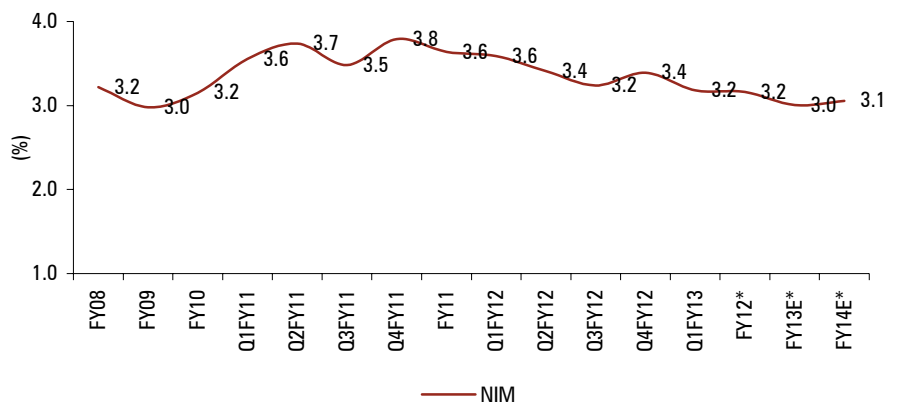
Advances grew strongly by 33.2% YoY to ₹ 12773 crore while deposits rose 25.2% YoY to ₹ 17062 crore in Q1FY13

The bank has 303 branches as on Q1FY13. It aims to reach 500 branches by FY15E. These branch additions would support business growth in future

We expect credit to grow at a CAGR of 26.2% and deposit to grow at a CAGR of 23.8% over FY12-14E

The CASA ratio dropped 99 bps YoY to 17.5% mainly on account of lower growth in current deposits at 8.4% YoY to ₹ 1173 crore. However, the saving deposits grew at a healthy pace of 25.9% YoY to ₹ 1818 crore (up by ₹ 50 crore sequentially)

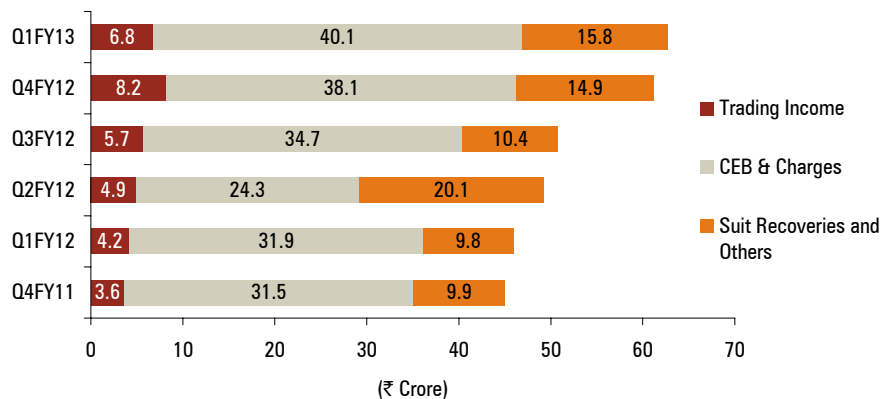
Exhibit 5: NIM maintained consistently above 3%



Source: Company Quarterly Presentation, ICICIdirect.com Research
*Calculated

CEB income witnessed healthy 25.7% YoY growth to ₹ 40.1 crore. Even trading income and miscellaneous income registered robust growth on a YoY basis

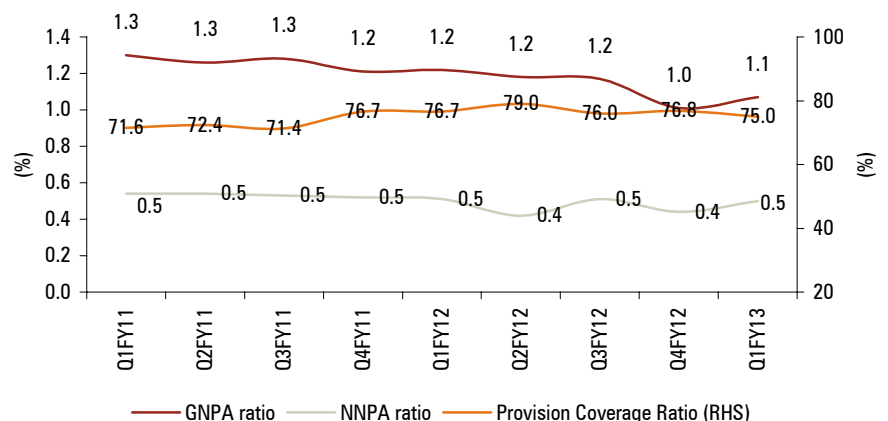
Exhibit 6: Non-interest income registers robust growth...



Source: Company Quarterly Presentation, ICICIdirect.com Research

The bank's unsecured portfolio constituted merely 3% of total advances. Slippages for the quarter came at ₹ 45 crore while recoveries and upgradations stood at ₹ 15 crore. Write-offs worth ₹ 16 crore were made during the quarter

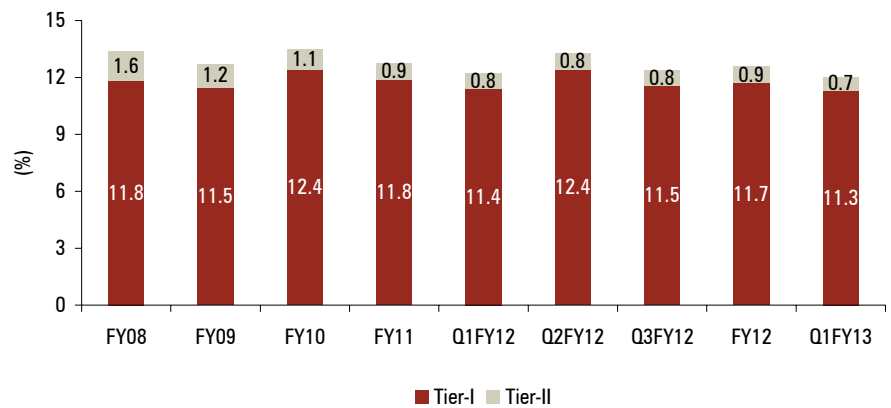
Exhibit 7: Asset quality remains stable in Q1FY13...



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 8: Rights issue of ₹ 250 crore expected soon...

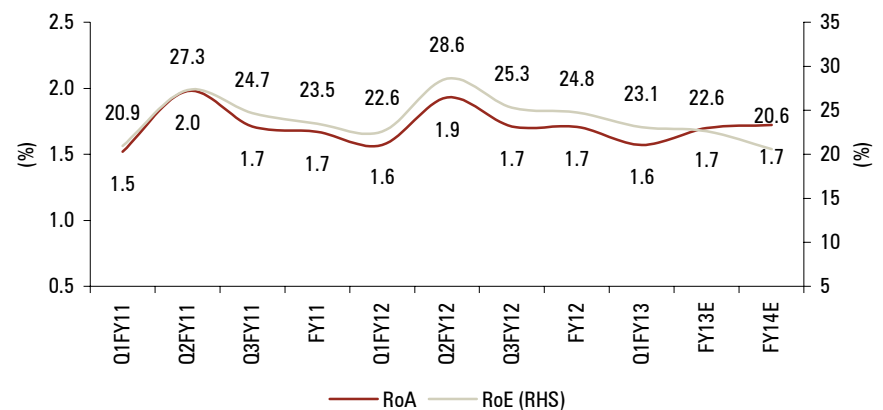
The capital adequacy ratio was at 12.0% with the Tier-I ratio constituting a healthy 11.3%



Source: Company Quarterly Presentation, ICICIdirect.com Research

As per the management, about 50-60 bps will be added to the incremental capital adequacy ratio post the ₹ 250 crore rights issue. The management expects to get Sebi approval around the second week of September and plans to come out with a rights issue within four to six weeks post Sebi approval.

Exhibit 9: Return ratios consistently strong...



Source: Company Quarterly Presentation, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Interest Earned	1218.4	1696.8	2130.3	2633.5
Interest Expended	798.4	1196.8	1531.7	1872.4
Net Interest Income	420.0	500.0	598.6	761.1
growth (%)	51.0	19.0	19.7	27.1
Non Interest Income	157.4	207.2	270.8	337.9
Net Income	577.4	707.2	869.4	1099.0
Staff cost	101.6	122.3	152.2	189.2
Other Operating expense	114.8	157.4	199.6	251.5
Operating profit	361.0	427.5	517.6	658.4
Provisions	79.0	82.8	77.5	89.0
Taxes	67.0	63.2	90.2	127.0
Net Profit	215.1	281.5	349.8	442.4
growth (%)	40.8	30.9	24.3	26.5
EPS (₹)	5.3	6.9	7.5	8.7

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY11	FY12	FY13E	FY14E
Valuation				
No. of Equity Shares	40.5	40.8	46.8	50.9
EPS (Rs.)	5.3	6.9	7.5	8.7
BV (Rs.)	24.9	31.0	39.0	48.6
ABV (Rs.)	23.7	29.7	37.3	46.5
P/E	10.1	7.8	7.1	6.2
P/BV	2.2	1.7	1.4	1.1
P/ABV	2.3	1.8	1.4	1.2
Yields & Margins (%)				
Net Interest Margins	3.4	3.2	3.0	3.1
Yield on assets	9.8	10.7	10.7	10.6
Avg. cost on funds	6.8	8.0	8.2	8.1
Yield on average advances	12.0	12.9	12.7	12.4
Avg. Cost of Deposits	6.7	8.0	8.0	7.9
Quality and Efficiency (%)				
Cost to income ratio	37.5	39.6	40.5	40.1
Credit/Deposit ratio	71.7	74.3	76.2	77.1
GNPA	1.2	1.0	1.1	1.0
NNPA	0.5	0.4	0.5	0.5
ROE	23.5	24.8	22.6	20.6
ROA	1.6	1.7	1.7	1.7

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Sources of Funds				
Capital	40.5	40.8	46.8	50.9
Reserves and Surplus	966.1	1202.3	1778.9	2422.5
Networth	1006.6	1243.1	1825.7	2473.4
Deposits	12914.3	16340.9	20104.7	25063.6
Borrowings	186.2	388.7	441.1	517.2
Other Liabilities & Provisions	484.5	377.8	434.5	512.9
Total	14591.5	18374.3	22805.9	28567.1
Applications of Funds				
Fixed Assets	68.5	97.7	100.3	101.0
Investments	3616.2	4586.3	5722.4	7138.1
Advances	9255.5	12137.6	15328.8	19323.3
Other Assets	365.0	416.6	341.3	513.6
Cash with RBI & call money	1286.3	1136.0	1313.2	1491.2
Total	14591.5	18374.3	22805.9	28567.1

Source: Company, ICICIdirect.com Research

Growth ratios

	(% growth)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Total assets	26.2	25.9	24.1	25.3
Advances	35.4	31.1	26.3	26.1
Deposit	25.6	26.5	23.0	24.7
Total Income	25.1	38.4	26.1	23.8
Net interest income	51.0	19.0	19.7	27.1
Operating expenses	30.5	29.2	25.8	25.2
Operating profit	41.1	18.4	21.1	27.2
Net profit	40.8	30.9	24.3	26.5
Net worth	21.9	25.9	44.1	35.5
EPS	38.9	29.9	8.5	16.1

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Banking																			
Bank of India (BANIND)	289	370	Buy	15,204	46.6	57.6	69.0	6.2	5.0	4.2	1.0	0.9	0.9	0.7	0.8	0.8	14.0	14.9	16.2
Bank of Baroda (BANBAR)	650	880	Buy	23,770	121.4	133.5	161.9	5.4	4.9	4.0	1.1	0.9	0.8	1.2	1.1	1.2	20.6	18.5	19.1
Dena Bank (DENBAN)	91	104	Buy	3,041	22.9	26.9	31.6	4.0	3.4	2.9	0.9	0.7	0.6	1.0	1.0	1.0	19.7	19.3	19.1
Indian Overseas Bank (INDOVE)	73	79	Hold	5,797	13.2	12.2	14.1	5.6	6.0	5.2	0.7	0.7	0.6	0.5	0.5	0.5	11.1	10.0	10.2
IDBI Bank (IDBI)	87	95	Hold	11,115	16.1	19.3	24.5	5.4	4.5	3.6	0.9	0.8	0.7	0.8	0.8	0.9	13.6	13.3	15.0
Oriental Bank of Commerce (ORIBAN)	233	NA	NA	6,796	39.1	50.7	58.7	6.0	4.6	4.0	0.8	0.7	0.7	0.7	0.8	0.8	9.9	11.8	12.5
Punjab National Bank (PUNBAN)	741	866	Buy	23,460	154.0	150.9	173.2	4.8	4.9	4.3	1.1	1.0	0.9	1.2	1.1	1.1	19.8	17.5	16.9
State Bank of India (STABAN)	2,005	2,422	Buy	127,340	174.5	201.9	231.6	11.5	9.9	8.7	2.0	1.6	1.4	0.9	1.0	1.0	15.7	15.2	15.0
Syndicate Bank (SYBNB)	97	111	Buy	5,537	21.8	24.6	28.8	4.4	3.9	3.4	0.8	0.7	0.7	0.8	0.8	0.8	16.3	16.2	16.9
Union Bank of India (UNIBAN)	171	NA	NA	9,463	32.5	37.0	41.7	5.3	4.6	4.1	0.9	0.9	0.8	0.7	0.7	0.7	14.9	14.8	14.8
Axis Bank (UTIBAN)	1,041	1,210	Buy	42,742	102.9	116.2	135.7	10.1	9.0	7.7	1.9	1.6	1.4	1.6	1.6	1.6	20.3	19.3	18.7
City Union Bank (CITUNI)	53	60	Buy	1,864	6.9	7.5	8.7	7.8	7.1	6.2	1.8	1.4	1.2	1.7	1.7	1.7	24.8	22.6	20.6
Development Credit Bank (DCB)	41	60	Buy	963	2.3	2.9	3.8	18.0	14.3	10.9	1.3	1.2	1.1	0.7	0.7	0.8	8.1	8.3	9.8
Federal Bank (FEDBAN)	405	472	Buy	6,930	45.4	49.9	59.2	8.9	8.1	6.9	1.3	1.2	1.1	1.4	1.3	1.3	14.4	14.5	15.8
HDFC Bank (HDFBAN)	588	590	Hold	136,693	22.0	28.4	36.0	26.7	20.7	16.4	4.7	4.1	3.5	1.7	1.8	1.9	18.7	20.7	22.7
Kotak Mahindra Bank (KOTMAH)	547	581	Hold	40,314	14.6	18.4	22.9	39.6	31.4	25.4	5.5	4.8	4.1	1.9	1.9	1.9	14.7	15.9	16.9
South Indian Bank (SOUINO)	23	28	Buy	2,627	3.5	4.1	5.2	6.6	5.7	4.5	1.4	1.1	0.9	1.1	1.2	1.2	21.6	21.6	21.1
Yes Bank (YESBAN)	368	399	Hold	12,768	27.7	31.3	40.4	13.3	11.7	9.1	2.8	1.9	1.6	1.5	1.6	1.5	23.1	20.5	19.3

Exhibit 10: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 11: Recent Releases

Date	Event	CMP	Target Price	Rating
3-Feb-12	Q3FY12 Result Update	43	52	Buy
28-Mar-12	Banking Industry	49	57	Buy
4-Apr-12	Q4FY12 Result Preview	50	57	Buy
22-May-12	Q4FY12 Result Update	48	57	Buy
22-Jun-12	Banking Industry update	49	57	Buy
5-Jul-12	Q1FY13 Result Preview	53	57	Hold

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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