

# City Union Bank

## Potential stress rises ahead of estimates

Despite higher-than-expected LLPs, CUBK's 3Q earnings were ~22% ahead of estimates on the back of a strong operating performance, driven by (1) an uptick in NIMs, (2) elevated treasury gains, and (3) better operating leverage. However, the pace and quantum of potential stress evolving at the bank, disappointed, especially when set against the backdrop of improving macros and consequently, peers' performance. We reduce our earnings estimates by ~7% over FY22-23E; we maintain BUY with a target price of INR 192.

- Pro forma stress evident:** On a pro forma basis, slippages for 9MFY21 came in at ~INR11.5bn (nearly 85%+ of FY21E guidance of 3.5%). While the management did not explicitly disclose pro forma GNPLs, we estimate that this number was ~6%. Collection efficiency dipped from ~95% in September to ~89% in December. Further, the bank restructured close to ~2.2% of loans until 3QFY21 and the management continues to guide for the total stock of such assets reaching ~5% by the end of the year. The sharper than expected surge in stress (pro forma albeit) prompts us to revise our FY21 slippage/ GNPA estimates to 4.8/6% from 4/5.2% earlier.
- Provisions remain elevated:** CUBK continued to make elevated provisions at INR2.2bn (22% ahead of our estimates). COVID-19 provisions for the quarter came in at INR1.3bn, taking the total stock of such provisions to INR4.7bn (1.3% of loans). Despite significant COVID-19 related provisions held by the bank, relative to those of its peers, we raise our LLP estimates in tandem with our NPL estimates to 1.6% over FY21-23E.
- Growth improves:** Advances clocked a growth of 7.9% YoY vs. 6.5% in the previous quarter. Much of the incremental growth was driven by gold loans and disbursements under the ECLGS scheme (INR20.8bn) as CUBK made disbursements to most eligible borrowers. Further, the management indicated an overlap of ~20% between recipients of ECLGS disbursements and restructured accounts. We build in a loan growth of ~13% CAGR over FY21-23E.

### Financial summary

(INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	4,890	4,273	14.5%	4,751	2.9%	16,752	19,038	22,079	24,960
PPOP	4,584	3,084	48.6%	3,847	19.2%	13,414	15,914	17,631	19,361
PAT	1,699	1,924	-11.7%	1,577	7.8%	4,763	6,649	8,112	9,849
EPS (INR)	2.3	2.6	-12.0%	2.1	7.8%	6.5	9.0	11.0	13.4
ROAE (%)						9.4	11.9	12.9	13.8
ROAA (%)						1.00	1.29	1.43	1.54
ABVPS (INR)						61.3	63.4	79.6	91.9
P/ABV (x)						2.98	2.88	2.29	1.99
P/E (x)						28.2	20.2	16.6	13.7

### Change in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	369	379	2.9%	415	427	2.9%	474	488	2.9%
NIM (%)	3.8	3.9	12 bps	4.1	4.1	-2 bps	4.2	4.1	-12 bps
NII	18.2	19.0	4.8%	21.5	22.1	2.6%	24.9	25.0	0.1%
PPOP	14.3	15.9	11.5%	16.8	17.6	4.8%	19.5	19.4	-0.9%
PAT	5.7	6.6	17.4%	8.5	8.1	-4.2%	10.8	9.8	-9.1%
ABVPS (INR)	65.4	63.4	-3.1%	78.7	79.6	1.1%	92.6	91.9	-0.8%

Source: Bank, HSIE Research

BUY

CMP (as on 3 Feb 2021)	INR 182
Target Price	INR 192
NIFTY	14,790

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 203	INR 192
	FY21E	FY22E
EPS %	+17.4%	-9.2%

### KEY STOCK DATA

Bloomberg code	CUBK IN
No. of Shares (mn)	738
MCap (Rs bn) / (\$ mn)	135/1,847
6m avg traded value (Rs mn)	381
52 Week high / low	Rs 239/110

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.2	55.0	(20.7)
Relative (%)	(9.6)	18.9	(46.8)

### SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	-	-
FIs & Local MFs	32.2	35.2
FPIs	18.7	18.7
Public & Others	49.1	46.1
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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