

Retail Equity Research (South India Focus)

City Union Bank Ltd

Banking

BSE CODE : 532210

NSE CODE: CUB

BLOOMBERG CODE: CUBK:IN

SENSEX : 50,732

BUY

12M Investment Period

Rating as per MidCap

CMP Rs. 171 TARGET Rs. 208 RETURN 22%

(Closing: 05-02-21)

KEY CHANGES:
TARGET ↑

RATING ↑

EARNINGS ↓

ECLGS and Gold loan to lead growth

City Union Bank Ltd (CUB), the oldest private sector bank in India, is a mid-sized commercial bank headquartered in Tamil Nadu, having a network of 700 branches and 1,780 ATMs spread across the country and a loan book size of Rs.35,437cr

- Total Business grew by 8% YoY with advances growing at 8% supported by strong growth in ECLGS (Emergency Credit Line Guarantee Scheme) and Gold Loan.
- Net Interest Income grew by 14% YoY with NIM improving by 20bps YoY and 4bps QoQ.
- We expect Advances to grow at a CAGR of 8.8% and Deposits to grow at CAGR of 10.5% over FY20-23.
- GNPA/NNPA stands at 2.94%/1.47% against 3.44%/1.81% during Q1FY21 on account of lower recognition. We expect elevated slippage levels, however, expect it to be in control due to restructuring of MSME books.
- We recommend Buy rating on the stock with a revised roll forward target price of Rs 208 based on 2.5x Adj BVPS of FY23E.

Moderate business growth supported by ECLGS and Gold Loan

In Q3FY21, banks total business grew by 8% YoY with deposits growing at 9% YoY and 4.5% sequentially while advances grew 8% YoY and 3% sequentially. ECLGS and Gold Loan led the growth in advances. Through ECLGS scheme, bank has so far sanctioned Rs.2049 Cr and disbursed Rs.1911Cr which is about 5.1% of total advances. Total Gold loan outstanding as on Q3FY21 stands at Rs. 5533 Cr (Rs. 4537 Cr as on Q2FY21). We expect advances to growth at 10% in FY21. 12.75% in FY22 and 8.8% in FY23. CASA ratio improved to 27.49% (25.70% during Q2FY21) with savings deposit growing at 16.5% QoQ and demand deposit at 0.8% QoQ.

NII growth led by improvement in NIM

Net Interest Income (NII) for the quarter grew by 14% YoY and 3% sequentially aided by 1% YoY decline in interest income and 12% reduction in interest expenses. NIM improved 20bps YoY and 4bps QoQ to 4.16% because of 33bps QoQ and 95bps YoY decrease in cost of fund. Yield of Funds declined 32bps QoQ and 73bps YoY to 7.94%. During the quarter, bank has made an additional provision of Rs.125 Cr towards Covid contingencies and holds total provision of Rs.465Cr which is 1.2% of total advances. Provision coverage ratio of the bank stands at 73%. Pre-Provision profit of the bank increased 48.5% YoY and 19.2% QoQ owing to higher other income. Net Profit of the bank decreased 12% YoY to Rs. 170 Cr owing to higher provision while increased 8% sequentially. ROA for the quarter stands at 1.29% and ROE at 12.03%. We expect ROA and ROE to reach pre-covid levels by FY22.

Lower NPA due to standstill

GNPA/NNPA for the quarter stands at 2.94%/1.47% against 3.44%/1.81% during Q2FY21 because of zero addition during the quarter. Collection efficiency stands at 89% of loan book. During the quarter, 60 standard accounts to the tune of Rs.321Cr has been restructured. Total loan restructured during 9MFY21 stands at Rs.807Cr which is 2.2% of total advances. Bank has identified Rs.917Cr of MSME and Rs.320Cr of non MSME books which need to be restructured in coming quarters. The bank hold a provision of Rs.31.6 Cr against the requirement of Rs.26.3 Cr. We expect GNPA/NNPA to be 5.71%/2.97% in FY21, 5.26%/2.74% during FY22 and 4.44%/2.31% in FY23.

Outlook and valuation

We expect the growth in advances to be driven by ECLGS and Gold Loan. Bank is expected to reach pre-covid levels of ROA and ROE by FY22. Even though provisioning is expected to remain high due to higher slippages in coming quarters, restructuring of MSME loan book will keep NPA under control. We therefore remain positive and value the stock at 2.5x FY23E Adj BVPS and recommend Buy rating with a roll forward upward target price of Rs.208.

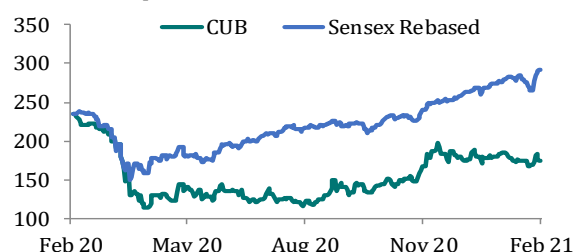
Company Data

Market Cap (Rs cr)	12,360
Outstanding Shares (cr)	73.8
Free Float (%)	100
Dividend Yield (%)	0.3
52 week high (Rs)	239
52 week low (Rs)	110
6m average volume (cr)	0.23
Beta	1.09
Face value (Rs)	1

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	0	0	0
FPI's	22	19	19
MFs/Institutions	30	27	37
Public	48	54	44
Total	100	100	100
Promoter pledge	-	-	-

Price Performance	3 month	6 month	1 year
Absolute Return	5.0%	46.2%	-25.6%
Absolute Sensex	21.6%	33.5%	23.9%
Relative Return*	-16.6%	12.7%	-49.5%

*over or under performance to benchmark index



Standalone (Rs cr)	FY21E	FY22E	FY23E
NII	1,829	2,017	2,223
Growth	9.2%	10.3%	10.2%
NIM(%)	4.06	4.09	4.12
Provisions	730	615	681
Adj. PAT	549	784	844
Growth	15.4%	42.7%	7.6%
Adj. EPS	7.6	10.9	11.7
Growth	15.4%	42.7%	7.6%
BVPS	78.3	88.0	98.4
Adj BVPS	63.4	72.5	83.3
P/E	23.0	16.1	15.0
P/B	2.2	2.0	1.8
Adj. P/B	2.8	2.4	2.1
ROE (%)	9.9	12.8	12.3

Cyril Charly
 Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q3FY21	Q2FY21	QoQ Growth (%)	Q3FY20	YoY Growth (%)	9MFY21	9MFY20	YoY Growth (%)
Interest Income	1,048	1,061	-1.2	1,061	-1.2	3,158	3,127	1.0
Interest Expense	559	586	-4.6	634	-11.8	1,757	1,871	-6.1
Net Interest Income (NII)	489	475	2.9	427	14.4	1,401	1,256	11.6
Fee and Other Income	230	169	35.9	142	61.6	560	501	11.8
Total Income	719	644	11.6	570	26.2	1,961	1,756	11.6
Expenditure	260	260	0.2	261	-0.2	762	750	1.6
Pre-Provision Profit	459	385	19.2	309	48.6	1,199	1,007	19.1
Provision	219	177	23.4	81	169.8	553	305	81.3
PBT	240	208	15.6	228	5.4	647	702	-7.9
Tax	70	50	40.0	35	100.0	165	130	26.9
Reported PAT	170	158	7.9	193	-11.7	482	572	-15.8
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	170	158	7.9	193	-11.7	482	572	-15.8
Diluted EPS (Rs)	2.80	2.12	32.1	3.20	-12.5	7.00	9.50	-26.3

Change in Estimates

Year / Rs Cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Net Interest Income (NII)	1,812	2,021	1,829	2,017	2,223	0.9%	-0.2%
Net Interest Margin (%)	4.04	4.13	4.06	4.09	4.12	2bps	(1bps)
Pre-Provision Profit	1,435	1,670	1,468	1,668	1,813	2.3%	-0.1%
Adj. PAT	567	792	549	784	844	-3.2%	-1.0%
Diluted EPS (Rs)	7.9	11	7.6	10.9	11.7	-3.8%	-0.9%

PROFIT & LOSS

Y.E March (Rs cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Interest Income	3,767	4,169	4,244	4,732	5,192
Interest Expense	2,156	2,493	2,415	2,715	2,969
Net Int. Income	1,611	1,675	1,829	2,017	2,223
<i>Change</i>	<i>12.7%</i>	<i>4.0%</i>	<i>9.2%</i>	<i>10.3%</i>	<i>10.2%</i>
Non Int. Income	514	680	744	816	861
Operating Income	2,126	2,355	2,573	2,833	3,085
<i>Change</i>	<i>8.3%</i>	<i>10.8%</i>	<i>9.3%</i>	<i>10.1%</i>	<i>8.9%</i>
Operating Exp.	886	1,014	1,105	1,165	0
Pre Prov. Profit	1,240	1,341	1,468	1,668	1,813
Prov. & Conting.	315	755	730	615	681
PBT	925	586	738	1,053	1,132
<i>Change</i>	<i>17.1%</i>	<i>-36.6%</i>	<i>25.8%</i>	<i>42.7%</i>	<i>7.6%</i>
Tax	242	110	188	268	289
Tax Rate (%)	26%	19%	25%	26%	26%
Reported PAT	683	476	549	784	844
Adjustment	0	0	0	0	0
Adj. PAT	683	476	549	784	844
<i>Change</i>	<i>15.3%</i>	<i>-30.2%</i>	<i>15.4%</i>	<i>42.7%</i>	<i>7.6%</i>
No. of shares (Cr)	73	74	74	74	74
EPS (Rs)	9.5	6.6	7.6	10.9	11.7
<i>Change</i>	<i>3.4%</i>	<i>-30.2%</i>	<i>15.4%</i>	<i>42.7%</i>	<i>7.6%</i>
DPS (Rs)	0.9	0.5	1.0	1.0	1.0

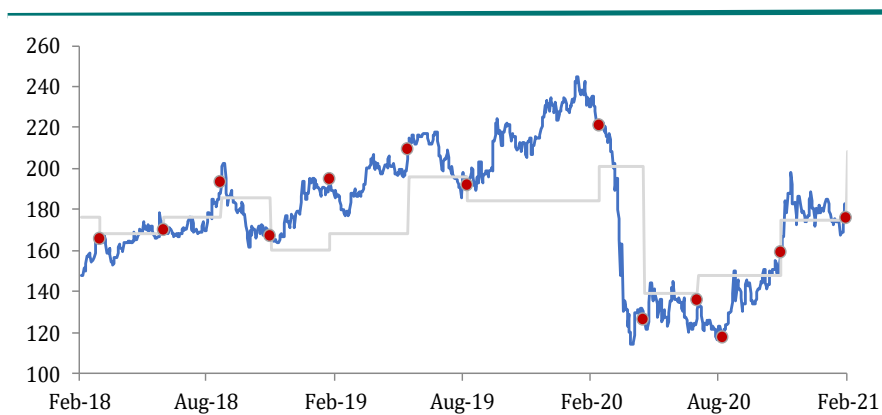
BALANCE SHEET

Y.E March (Rs cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	1,993	2,030	1,990	1,390	1,842
Loans & Advances	32,673	33,927	37,326	42,083	45,879
Investments	7,712	9,117	9,481	9,861	10,755
Gross Fixed Assets	690	680	710	780	850
Net Fixed Assets	250	245	192	179	158
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	2,630	4,414	4,888	5,448	5,927
Total Assets	45,259	49,734	53,878	58,961	64,561
Deposits	38,448	40,832	44,287	48,022	52,387
Debt Funds	481	2,032	1,972	2,400	2,677
Other Liabilities	1,489	1,573	1,846	2,053	2,240
Provisions	0	0	0	0	0
Equity Capital	73	74	74	74	74
Reserves & Sur-	4,767	5,222	5,700	6,412	7,183
Shareholder's	4,841	5,296	5,773	6,485	7,257
Total Liabilities	45,259	49,734	53,878	58,961	64,561
BVPS (Rs)	65.9	71.8	78.3	88.0	98.4
<i>Change</i>	<i>5.2%</i>	<i>9.4%</i>	<i>9.0%</i>	<i>12.3%</i>	<i>11.9%</i>
Adj. BVPS (Rs)	57.9	61.5	63.4	72.5	83.3
<i>Change</i>	<i>4.3%</i>	<i>6.3%</i>	<i>3.0%</i>	<i>14.4%</i>	<i>15.0%</i>

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return					
Yield on Advances (%)	9.9	10.0	9.4	9.6	9.6
Cost of Deposits (%)	5.9	5.9	5.3	5.6	5.6
Spread(%)	4.0	4.0	4.1	4.0	4.0
NIM (%)	4.2	4.0	4.1	4.1	4.1
ROE (%)	15.2	9.4	9.9	12.8	12.3
ROA(%)	1.6	1.0	1.1	1.4	1.4
Business Growth					
Loans & Advances (%)	17.3	3.8	10.0	12.7	8.8
Deposits (%)	17.0	6.2	8.5	8.4	9.5
Operating Ratios	85.0	83.1	84.2	87.6	87.0
Cost to Income (%)					
CASA (%)	41.7	43.0	43.0	41.1	0.0
Asset Quality	25.2	25.0	28.0	27.9	28.9
GNPA (%)					
NNPA (%)	3.0	4.1	5.7	5.3	4.4
Capital Adequacy	1.8	2.3	3.0	2.7	2.3
CAR (%)					
Valuation	15.6	15.4	17.0	17.0	17.5
P/E (x)					
P/B (x)	18.1	25.9	22.5	15.7	14.6
Adj. P/B (x)	2.6	2.4	2.2	1.9	1.7
	3.0	2.8	2.7	2.4	2.1

Recommendation Summary (last 3 years)



Dates	Rating	Target
10.Nov.17	Hold	176
07.Mar.18	Reduce	168
06.Jun.18	Reduce	176
28.Aug.18	Reduce	186
06.Nov.18	Reduce	160
30.Jan.19	Reduce	168
22.May.19	Reduce	196
14.Aug.19	Reduce	184
18.Feb.20	Reduce	201
22.Apr.20	Hold	139
08 July 20	Accumulate	148
14 Aug 20	Buy	148
04 Nov 20	Accumulate	175
08-Feb-21	Buy	208

Source: Bloomberg, Geojit Research.

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	-	-	-

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 : The analyst has no investment opinion on the stock.

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Cyril Charly, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.



JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that, I Cyril Charly, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange board of India.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226