

City Union Bank

Refer to important disclosures at the end of this report

RoA to normalize gradually; management stability, strong capital comforting

- Despite lower NIM due to subdued growth and interest reversal, CUB reported higher-than-expected PAT at Rs1.1bn (vs. estimate of Rs0.8bn) in Q4FY21 mainly due to contained LLP and tax reversals.
- GNPA ratio was down at 5.1% (vs. pro forma of 6% in Q3) due to higher write-offs, while restructuring was on guided lines at 5% of loans. Amid the raging second Covid-19 wave, CUB expects lower slippages/NPA formation in FY22 vs. FY21. CUB's specific PCR remains moderate at 43%, but it carries a contingent buffer of Rs1.6bn (0.4% of loans).
- CUB expects credit growth to remain moderate and NPA formation/LLP to be front-loaded in H1FY22. However, it expects RoA to gradually normalize to its traditional range of 1.5-1.6% over H2FY22-FY23, led by better growth, better margins and lower LLP.
- Notwithstanding near-term asset quality concerns on account of the second Covid-19 wave, we retain Buy with a TP of Rs220 (based on 2.5x FY23E ABV), taking comfort in its ability to claw back superior return ratios (RoA/RoE at 1.6%/15%), strong capital position (Tier I at 18.5%) and management stability.

Slower growth, interest reversal weigh on NIM, but set to improve: Credit growth remains sluggish at 6.6% yoy/0.7% qoq, mainly dragged by corporate (down 20% yoy) and a 12% yoy fall in the Agri portfolio. However, growth in gold loan remained strong, while strong ECLGS disbursements of Rs19.6bn resulted in higher SME loan growth. NIM declined 44bps qoq to 3.7% mainly due to interest reversal on NPA and interest waiver. The bank believes that the impact of the second wave on growth will be limited, but lack of ECLGS lending could keep the overall growth trajectory in check. However, steady improvement in CASA reflecting in moderating cost of fund and lower NPA formation should lead to gradual improvement in NIM.

Stress formation in FY22 to be lower vs. FY21 due to partial lockdowns: Reported GNPA was down qoq at 5.1% vs. pro forma GNPA of ~6% in Q3, mainly due to higher write-offs. Overall restructuring pool was in line with management's earlier guidance at 5% of loans (including Rs5.9bn under the Covid-19 resolution framework). SMA2 pool as of Mar'21 has substantially declined to 2% from high levels of 6% in Dec'19, but the second wave could disrupt the stress normalization. Amid the raging pandemic, CUB expects lower slippages/NPA formation in FY22 vs. FY21 due to partial lockdowns, and thus lower economic impact. The bank's specific PCR remains moderate at 43%, but it carries a contingent buffer of Rs1.6bn (0.4% of loans).

Outlook and valuation: We have slightly trimmed our FY22/FY23 earnings estimates by 1%/5%, factoring in lower growth, partly offset by lower LLP. However, we expect the bank's RoA/RoE to claw back to its traditional high level of 1.6%/15% by FY23E, led by better growth and gradual moderation in credit cost. We retain Buy with a TP of Rs220 (2.5x FY23E ABV vs. 2.4x earlier). Key risks to our call include slower-than-expected business normalization and higher stress in SME pool.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	23,551	25,343	27,331	30,452	34,812
Net profit	4,763	5,928	7,645	9,934	11,474
EPS (Rs)	6.5	8.0	10.3	13.4	15.5
ABV (Rs)	63.9	68.2	77.2	87.6	100.1
RoA (%)	1.0	1.2	1.4	1.6	1.6
RoE (%)	9.4	10.6	12.4	14.5	15.1
PE (x)	26.8	21.6	16.8	12.9	11.2
P/ABV	2.7	2.6	2.3	2.0	1.7

Source: Company, Emkay Research

CMP	Target Price
Rs 174 as of (May 29, 2021)	Rs 220 (■) 12 months
Rating	Upside
BUY (■)	26.6 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(1)/(5)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	10.3	13.4
Consensus	10.3	13.0
Mean Consensus TP (12M)	Rs 200	

Stock Details

Bloomberg Code	CUBK IN
Face Value (Rs)	1
Shares outstanding (mn)	739
52 Week H/L	200 / 116
M Cap (Rs bn/USD bn)	128 / 1.77
Daily Avg Volume (nos.)	3,305,796
Daily Avg Turnover (US\$ mn)	7.8

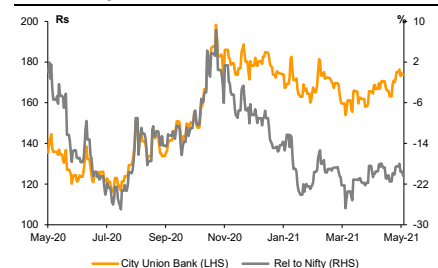
Shareholding Pattern Mar '21

Promoters	-%
FII's	18.0%
DII's	39.1%
Public and Others	42.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	5	(7)	34
Rel. to Nifty	(1)	(1)	(22)	(17)

Relative price chart



Source: Bloomberg

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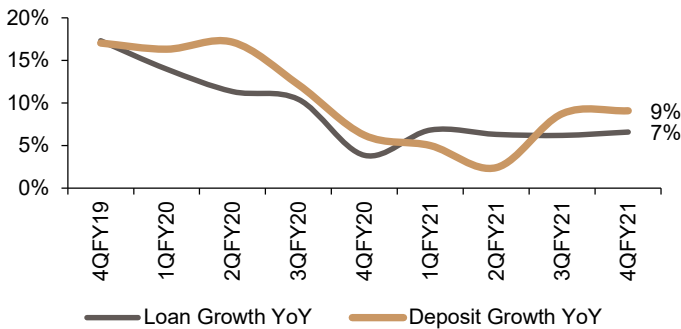
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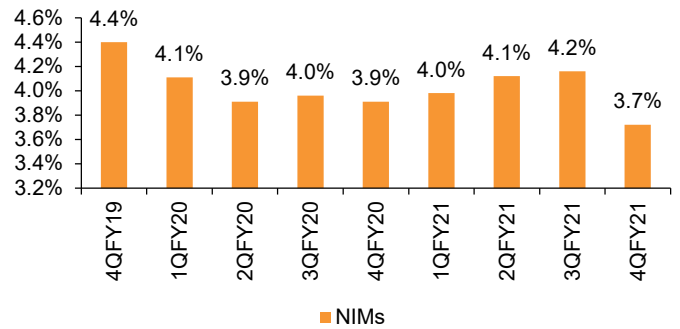
Story in Charts

Exhibit 1: Credit growth remained subdued



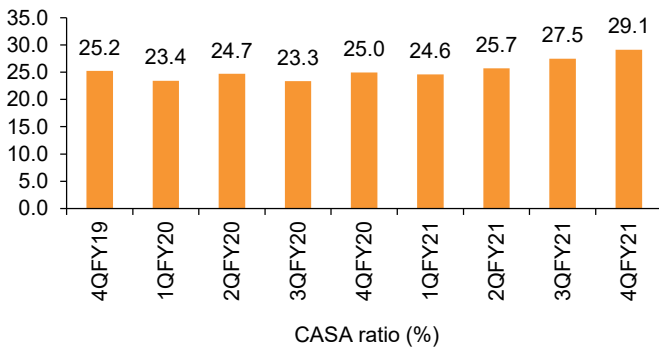
Source: Company, Emkay Research

Exhibit 2: Interest reversal on NPA and waiver as per SC ruling led to sharp decline in NIM



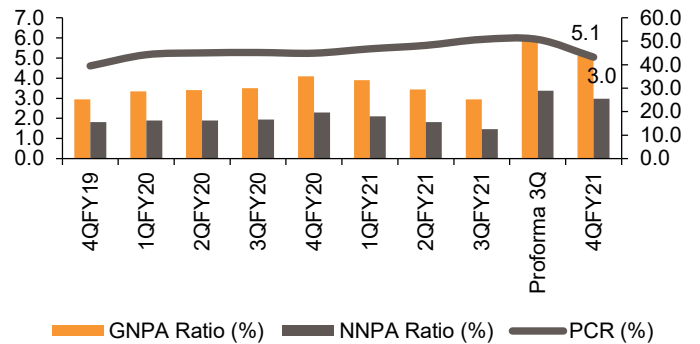
Source: Company, Emkay Research

Exhibit 3: CASA ratio has steadily improved to a historical high level of 29%, mainly due to healthy CASA build-up and lower TD accretion



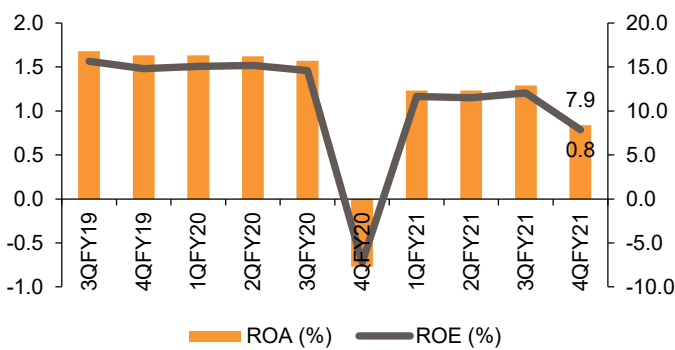
Source: Company, Emkay Research

Exhibit 4: Reported GNPA was down qoq, but remained elevated at 5.1%



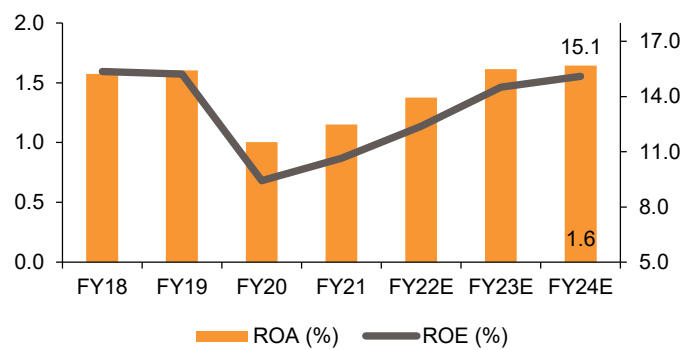
Source: Company, Emkay Research

Exhibit 5: Lower NIMs, subdued treasury gains weighed on RoA



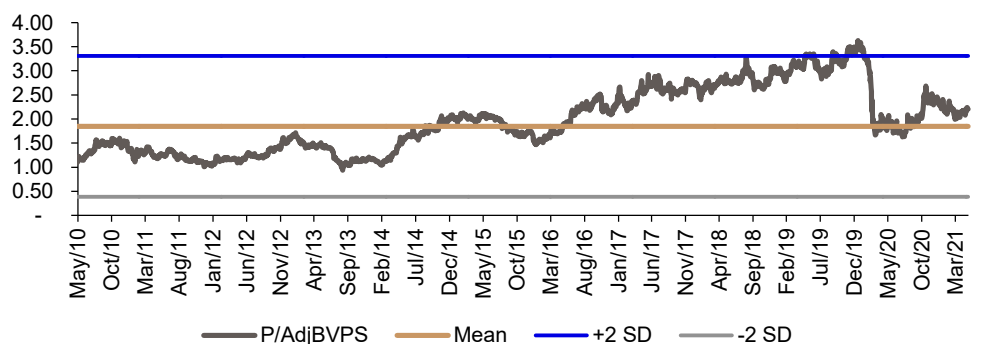
Source: Company, Emkay Research

Exhibit 6: We expect RoA to remain subdued and claw back to its traditional high level of 1.6% by FY23E



Source: Company, Emkay Research

Exhibit 7: The stock currently trades at 2.2x – 1-year forward ABV



Source: Emkay Research

Exhibit 8: Actual vs. Estimates – Q4FY21

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	5,735	6,636	6,770	-14%	-15%	Lower NIM and treasury income led to a miss
PPOP	2,847	3,943	4,076	-28%	-30%	Lower net income led to a miss
PAT	1,112	827	1,279	34%	-13%	Contained LLP led to a beat

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	10,417	10,493	10,609	10,480	9,762	-6	-7	41,345	44,981	9
Interest Exp	6,222	6,124	5,858	5,590	5,478	-12	-2	23,050	24,717	7
Net Interest Income	4,195	4,370	4,751	4,890	4,284	2	-12	18,295	20,265	11
Global NIMs (reported)	3.91	3.98	4.12	4.16	3.72	-19bps	-44bps	3.77	3.87	11bps
Non-interest Income	1,793	1,606	1,693	2,298	1,451	-19	-37	7,047	7,067	0
Operating Expenses	2,637	2,415	2,598	2,604	2,888	10	11	10,505	11,361	8
Pre Provisioning Profit	3,351	3,560	3,847	4,584	2,847	-15	-38	14,838	15,971	8
Provision & Contingencies	4,504	1,570	1,770	2,185	2,385	-47	9	7,910	6,414	-19
PBT	-1,153	1,990	2,077	2,399	462	-140	-81	6,928	9,556	38
Income Tax Expense (Gain)	-200	450	500	700	-650	225	-193	1,000	1,911	91
Net Profit/(Loss)	-953	1,540	1,577	1,699	1,112	-217	-35	5,928	7,645	29
Gross NPA (%)	4.09	3.90	3.44	2.94	5.11	102bps	217bps	5.12	5.01	-11bps
Net NPA (%)	2.29	2.11	1.81	1.47	2.97	68bps	150bps	2.97	2.67	-30bps
Deposits (Rs in bn)	408	410	414	433	445	9	3	445	490	10
Net Advances (Rs in bn)	339	339	348	359	362	7	1	362	397	10

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	28,710	27,331	-4.80%	33,102	30,452	-8.01%	34,812
PPOP	17,507	15,971	-8.8%	20,790	17,952	-13.6%	20,739
PAT	7,713	7,645	-0.9%	10,432	9,934	-4.8%	11,474
EPS (Rs)	10.5	10.3	-1.0%	14.1	13.4	-4.9%	15.5
BV (Rs)	88.4	87.9	-0.5%	99.0	97.4	-1.6%	108.4

Source: Emkay Research

Exhibit 11: Key Assumptions

	FY21	FY22E	FY23E	FY24E
Loan Growth %	6.6	9.8	15.4	17.5
Deposit Growth %	9.1	10.0	12.9	15.1
NIM %	3.8	3.9	4.0	4.0
GNPA %	5.1	5.0	4.1	3.1
Credit Cost %	2.3	1.7	1.2	1.2

Source: Emkay Research

Exhibit 12: Key ratios and trends

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs mn	326,733	317,439	327,603	338,276	339,274	339,059	348,248	359,188	361,578
Loans YoY %	17.3	14.0	11.3	10.4	3.8	6.8	6.3	6.2	6.6
Loans QoQ %	6.6	(2.8)	3.2	3.3	0.3	(0.1)	2.7	3.1	0.7
Composition %									
- Corporate	32.1	32.3	33.3	32.7	33.4	32.2	30.7	28.7	24.9
- SME/BB	31.5	33.7	33.8	33.0	31.7	32.5	35.3	35.4	40.5
- Retail	22.7	20.6	20.2	20.8	20.7	21.2	24.2	26.1	23.6
- Agri	13.7	13.5	12.7	13.5	14.2	14.2	9.7	9.8	10.9
Liability Profile									
Deposit	384,479	390,768	404,512	398,120	408,325	410,259	414,205	432,883	445,374
growth YoY	17.0	16.3	17.1	12.1	6.2	5.0	2.4	8.7	9.1
growth QoQ	8.3	1.6	3.5	(1.6)	2.6	0.5	1.0	4.5	2.9
CASA %	25.2	23.4	24.7	23.3	25.0	24.6	25.7	27.5	29.1
CA %	8.4	7.3	7.8	7.1	7.2	7.1	7.7	7.4	8.4
SA %	16.9	16.1	16.9	16.3	17.8	17.6	18.0	20.1	20.7
Branches	650	650	650	660	700	700	700	700	702
NIM %	4.40	4.11	3.91	3.96	3.91	3.98	4.12	4.16	3.72
Asset Quality									
GNPA %	3.0	3.3	3.4	3.5	4.1	3.9	3.4	2.9	5.1
NNPA %	1.8	1.9	1.9	2.0	2.3	2.1	1.8	1.5	3.0
PCR %	39.5	44.3	45.0	45.2	44.9	46.8	48.3	50.8	43.2
Capital Adequacy									
CAR %	15.6	15.7	15.5	15.4	16.8	16.8	17.4	17.4	19.5
ROE Decomposition									
NII	4.0	3.6	3.5	3.7	3.6	3.7	4.3	4.0	3.3
Other Income	1.2	1.0	1.0	0.9	0.9	1.4	0.9	0.9	0.9
Opex	2.2	2.0	2.2	2.3	2.3	2.1	2.3	2.2	2.2
PPOP	3.2	3.1	2.9	2.7	2.9	3.1	3.5	3.8	2.2
Provisioning Cost	0.9	1.0	0.9	0.7	3.9	1.3	1.6	1.8	1.8
PBT	2.4	2.1	2.0	2.0	(1.0)	1.7	1.9	2.0	0.4
ROA	1.7	1.6	1.6	1.7	(0.8)	1.3	1.4	1.4	0.8
Leverage (x)	8.8	9.3	9.2	8.6	8.7	17.6	15.9	8.6	9.1
ROE	14.8	15.1	15.2	14.6	(7.1)	23.3	22.6	12.0	7.7

Source: Emkay Research, Company

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	16,752	18,295	20,265	23,115	26,858
Other income	6,799	7,047	7,067	7,337	7,953
Fee income	554	582	634	729	839
Net income	23,551	25,343	27,331	30,452	34,812
Operating expenses	10,137	10,505	11,361	12,500	14,073
Pre provision profit	13,414	14,838	15,971	17,952	20,739
PPP excl treasury	11,818	12,444	14,056	16,420	19,283
Provisions	7,551	7,910	6,414	5,534	6,396
Profit before tax	5,863	6,928	9,556	12,418	14,343
Tax	1,100	1,000	1,911	2,484	2,869
Tax rate	19	14	20	20	20
Profit after tax	4,763	5,928	7,645	9,934	11,474

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	737	739	739	739	739
Reserves	52,223	57,686	64,223	71,202	79,352
Net worth	52,961	58,424	64,961	71,941	80,090
Deposits	408,325	445,374	489,880	552,849	636,079
Borrowings	20,224	13,357	12,021	9,617	8,655
Total liabilities	497,335	533,116	578,144	652,226	744,668
Cash and bank	20,304	27,927	29,323	30,790	32,329
Investments	91,168	94,359	103,203	113,990	129,459
Loans	339,274	361,578	396,949	458,065	538,333
Others	17,225	18,702	19,949	20,850	21,853
Total assets	497,335	533,116	578,144	652,226	744,668

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.7	3.8	3.9	4.0	4.0
Non-ll/avg assets	1.4	1.4	1.3	1.2	1.1
Fee income/avg assets	0.1	0.1	0.1	0.1	0.1
Opex/avg assets	2.1	2.0	2.0	2.0	2.0
Provisions/avg assets	1.6	1.5	1.2	0.9	0.9
PBT/avg assets	1.2	1.3	1.7	2.0	2.1
Tax/avg assets	0.2	0.2	0.3	0.4	0.4
RoA	1.0	1.2	1.4	1.6	1.6
RoAE	9.4	10.6	12.4	14.5	15.1
GNPA (%)	4.1	5.1	5.0	4.1	3.1
NNPA (%)	2.3	3.0	2.7	2.1	1.5

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.5	8.0	10.3	13.4	15.5
BVPS	71.8	79.1	87.9	97.4	108.4
ABVPS	63.9	68.2	77.2	87.6	100.1
DPS	0.5	0.0	1.5	4.0	4.5

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	26.8	21.6	16.8	12.9	11.2
P/BV	2.7	2.5	2.3	2.0	1.7
P/ABV	2.7	2.6	2.3	2.0	1.7
P/PPOP	9.6	8.7	8.0	7.2	6.2
Dividend Yield (%)	0.3	0.0	0.9	2.3	2.6

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	4.0	9.2	10.8	14.1	16.2
PPOP	8.2	10.6	7.6	12.4	15.5
PAT	(30.2)	24.5	29.0	29.9	15.5
Loans	3.8	6.6	9.8	15.4	17.5

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	4,195	4,370	4,751	4,890	4,284
NIM(%)	3.9	4.0	4.1	4.2	3.7
PPOP	3,351	3,560	3,847	4,584	2,847
PAT	(953)	1,540	1,577	1,699	1,112
EPS (Rs)	(1.29)	-	2.14	2.30	1.50

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	-	-	-	-	-
FII	20.8	21.7	18.7	18.7	18.0
DII	32.1	30.1	27.5	37.6	39.1
Public and Others	47.1	48.3	53.8	43.8	42.9

Source: Capitaline

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.63	20.60	-0.1%	-3	100.00
Axis Bank	2.22	2.32	4%	10	11.24
AU Small Finance Bank	0.27	0.19	-31%	-8	0.92
Bandhan Bank	0.28	0.28	2%	1	1.38
Bank of Baroda	0.15	0.12	-17%	-3	0.59
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.21	46%	7	1.04
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.21
Federal Bank	0.18	0.24	35%	6	1.18
HDFC Bank	7.07	6.92	-2%	-15	33.55
ICICI Bank	4.99	5.25	5%	26	25.46
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.60	0.75	24%	14	3.62
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.76	2.16	-22%	-60	10.48
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.11	0.09	-22%	-3	0.42
State Bank of India	1.63	2.01	23%	38	9.76
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.03	NA	3	0.14

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-May-20	26-Nov-20	25-Feb-21	27-Apr-21	27-May-21
EAP - BFSI-Banks	100.0	65.2	102.4	123.9	112.4	120.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	64.4	100.8	121.5	110.1	117.4

*Performance measurement base date 1st April 2019

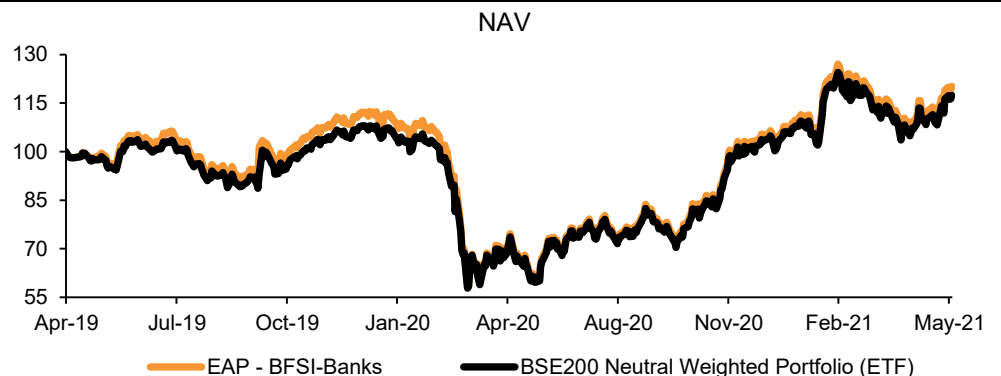
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	6.9%	-3.1%	17.3%	84.2%
BSE200 Neutral Weighted Portfolio (ETF)	6.6%	-3.4%	16.4%	82.4%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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