

Buy

City Union Bank

Industry: Commercial Banks

Industry View: Neutral

Result Update

“Delivers on growth... ahead of estimates”

City Union Bank (CUB) FY11 operating income grew by 37% yoy led by NII growth of 51%; ahead of our estimate by 16%; due to lower interest expended of 8.4%. Higher than expected operating costs and provisioning by 8.4% and 45% respectively v/s our estimates partly offset the difference in PAT (growth of 41% yoy FY11) which was ahead by 13%.

Q4FY11 PAT increased by 48%/ (11%) yoy/qoq to ₹514 mn, led by 36%/14% NII growth. Interest earned increased 38%/11% yoy/qoq while the bank benefitted through the roll off of high cost liabilities and interest expended increased by 40%/9% yoy/qoq.

NIMs for the full year were 3.6% v/s 3.2% yoy. The bank maintained spreads during the quarter as it balanced CoDs of 7.2% v/s 6.9% qoq with yields on advances of 12.7% v/s 12.2% qoq. The management expects interest rate environment to remain firm; however, also factors in flexibility to pass on 50-75 bps interest rate hikes.

Loan book grew 28%/9% and deposit by 26%/8% yoy/ qoq. CD ratio increased to 72% v/s 67%/71% yoy/qoq. The low CD ratio maintained in previous quarters enabled CUB to protect margins in Q4FY11. Although the benefit of CD ratio will not be there in the next 2-3 quarters, ₹3,000-4,000 mn high cost deposits maturing in Q2FY11 and repricing of loan book will aid in maintaining margins in the prescribed range of 3.1-3.8% in FY12.

CASA grew 12% yoy and share remained 20% v/s 22%/19% YoY/QoQ. The management has guided CASA share of ~20% going forward.

Non-interest income grew by 40%/24% YoY/QoQ. Fee income grew in line with loan book and treasury income lagged during the quarter.

The asset quality of bank remains manageable with slippage at 1.2%. Gross npas increased 20%/3% YoY/ QoQ to 1.2% v/s 1.4%/1.3% yoy/qoq. Net Npas increased 22%/8% YoY/ QoQ to 0.5% v/s 0.6%/0.5% yoy/qoq. PCR increased to 77% v/s 70%/71% yoy/qoq. Restructured assets were 3% of loan book (₹3 bn) and the ₹108 mn were added during FY11. The management has guided for a benign environment of restructured assets (Only ₹232 mn principal repayment is yet to start) based on repayments of restructured assets and no direct exposure to dyeing and common affluent plants in Tirupur.

Stock Data

Current Market Price (₹)	44
Target Price (₹)	59
Upside (%)	34
Reuters	CTBK.BO
Bloomberg	CUBK IN

What's Changed

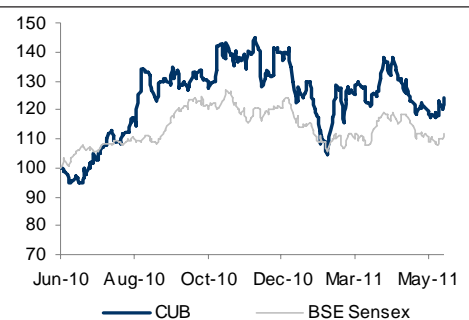
12 month PriceTarget (₹)	65 to 59
FY12 EPS (₹)	32.6 to 29.5

Key Data

Market Cap (₹bn)	19
52-Week Range (₹)	54 / 33
Avg. Daily Trading Value (₹.mn)	58
Promoters (%)	-
FII Holding (%)	17
DII Holding (%)	7
Public & Others Holding (%)	76

Fiscal YE	FY09	FY10	FY11E	FY12E
NII (₹mn)	2,781	4,200	5,390	6,715
Oper. Income(₹mn)	4,216	5,774	7,243	8,954
PAT(₹mn)	1,528	2,207	2,850	3,618
NIMs (%)	3.2	3.6	3.6	3.6
RoE (%)	20.6	24.1	25.2	25.6
RoA (%)	1.5	1.7	1.7	1.8
EPS (₹)	3.8	5.4	7.0	8.9
ABV (₹)	19.7	23.7	29.6	37.3
P/E (x)	11.5	8.1	6.3	4.9
P/ABV (x)	2.2	1.9	1.5	1.2

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	1	(3)	24
BSE Relative	(4)	(3)	13

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C/I ratios was 41% v/s 39%/36% YoY/ QoQ. Employee expenses increased 13.6%/ 18.9% YoY/QoQ and operating expenses 84%/ 42% YoY/QoQ.

The bank has opened 28 branches and has a branch network of 250 branches of which 87% are in the South. The management has guided to a network of 330 branches by March 2012 following a similar distribution pattern.

CUB reported RoA of 1.7% v/s 1.5%/1.7% yoy/qoq and RoE of 23% v/s 21%/25% in Q4FY11. Dividend payout was 16% in FY11 v/s 20% yoy.

CUB Q4FY11 Concall Highlights

- Spreads have been maintained qoq. Cost of deposits increased 30 bps to 7.18% but due to base rate and PLR hikes, yield on advances increased 52 bps to 12.71%.
- Management has guided for NIMs of 3.3% in FY12 with a range of 3.1-3.8%. There is flexibility to pass on 50-75 bps of costs to customers. 27-30% business growth to be maintained in FY12.
- Duration of liabilities is 1.5 years and loan book is 1.5-2 years. ₹3-4 bn is due to mature in August 2011 (raised at 11-11.5% under the 1000 day deposit scheme).
- 50% of licensed branches have been opened and 30 branches will be opened over the next 2-3 months. By March 2012, the total targeted network is 330 branches. There has also been an ATM drive in FY11 and ATMs and branches are almost equal. Over the next year this ratio will move to 1.5x.
- Over the next 3-5 years, 75% of new branches are to be opened in the South and 25% over rest of India. Deepening presence in regions other than South India to come into focus post 3-5 years.
- Not part of IBA hence no impact of pension and gratuity
- Cost income ratio to remain 36-37% except in the years of wage revision (every 4th year due in FY12/FY13) where it is targeted at 40-41%.
- Assets restructured in FY10 and FY09 have been performing well. Additional restructuring of ₹100 mn in FY11. The bank does not have direct exposure to the dyeing and common affluent treatment plants in Tirupur which were ordered closed. For the industry cost of dyeing has increased and reduced margins. However, the situation is manageable.
- Slippage ratio (1.1-1.2%), recovery, write offs and additions in gross npas have reached a steady state for the bank
- The bank has ₹100 mn exposure to microfinance of which 50% has been recovered; ₹50 mn was to SKS Microfinance of which 60% has been recovered. The bank is not aggressive in micro finance. Zero debt to airlines
- CAR is 12.8% in FY11. CUB has shareholder approval to raise ₹3,000-4,000 mn. 2010-2015. 5 year capital raising plan – raise NW by ₹20 bn to ₹30 bn. ₹10 bn will be raised through an internal plough back and the rest through external sources (Pref/ QIP/right). The bank has 3-4 quarters to decide on the mode of capital raising.

Outlook

Management has guided for FY12 loan growth of 27-30% factoring in firm interest rates and margin pressures in underlying industries (such as textiles).

We have revised our FY12 estimates adjusting for strong asset and NII growth in FY11. We expect NII to grow 26% CAGR on the back of loan growth of 26% CAGR FY11-13E and a 73% CD ratio. NIMs are likely to benefit from re-pricing of the working capital book and re-pricing of high cost deposits.

The management has indicated capital raising plans in FY12 and will seek to renew the shareholder approval to raise ₹2-3 bn. We have not factored in capital raising in our estimates. We rollover to FY13E and revise downwards our price target to ₹59 (₹65 FY12 earlier) – lower P/ABV multiple of 1.5x. Reiterate BUY.

Q4FY11 Results

Particulars	Q4FY10	Q4FY11	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Interest earned	2,501.0	3,460.8	38.4	10.6	9,566.1	12,184.1	27.4
- on Advances / Bills	1,967.6	2,775.0	41.0	12.2	7,558.3	9,654.3	27.7
- Income on investments	515.1	669.2	29.9	4.8	1,936.7	2,451.1	26.6
- on bal with RBI and other banks	18.3	15.8	(13.7)	(14.1)	71.1	77.9	9.5
- Others	-	0.7	-	-	-	0.7	-
Interest Expended	1,626.1	2,269.6	39.6	9.0	6,784.7	7,983.8	17.7
Net Interest Income	874.8	1,191.2	36.2	13.7	2,781.4	4,200.3	51.0
Other income	322.2	450.2	39.7	24.0	1,435.0	1,574.0	9.7
Operating income	1,197.0	1,641.3	37.1	16.4	4,216.4	5,774.3	36.9
Employee expenses	257.4	292.4	13.6	18.9	801.2	1,016.2	26.8
Other Operating expenses	203.8	374.7	83.8	41.5	857.3	1,147.8	33.9
Operating profit	735.8	974.2	32.4	8.3	2,557.9	3,610.3	41.1
Provisions and contingencies	355.2	360.2	1.4	233.8	605.3	789.8	30.5
PBT	380.6	614.0	61.3	(22.5)	1,952.6	2,820.5	44.5
Provision for Tax	32.5	100.0	207.7	(53.5)	425.0	670.0	57.6
PAT	348.1	514.0	47.6	(10.9)	1,527.6	2,150.5	40.8

Source: Company

Financial Summary

Income statement

YE March (₹mn)	FY10	FY11	FY12E	FY13E
Interest earned	9,566	12,184	15,684	19,762
Interest Expended	6,785	7,984	10,294	13,048
Net Interest Income	2,781	4,200	5,390	6,715
<i>Growth (%)</i>	15	51	28	25
Other income	1,435	1,574	1,853	2,239
Operating income	4,216	5,774	7,243	8,954
<i>Growth (%)</i>	15	37	25	24
Operating expenses	1,659	2,164	2,688	3,359
Employee expenses	801	1,016	1,266	1,626
Other operating expenses	857	1,148	1,422	1,734
Operating profit	2,558	3,610	4,555	5,595
<i>Growth (%)</i>	13	41	26	23
<i>Margins (%)</i>	61	63	63	62
Provisions and conting.	605	789	912	969
PBT	1,953	2,821	3,643	4,625
Provision for Tax	425	614	793	1,007
PAT	1,528	2,207	2,850	3,618
<i>Growth (%)</i>	25	44	29	27
<i>Margins (%)</i>	36.2	38.2	39.4	40.4

Balance sheet

YE March (₹mn)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Share capital	400	405	405	405
Reserves & Surpluss	7,857	9,661	12,107	15,320
Shareholders funds	8,256	10,066	12,512	15,725
Deposits	102,846	129,143	159,460	204,551
Borrowings	400	1,862	3,712	1,962
Other liabilities and prov.	4,092	4,845	5,900	6,546
Total	115,594	145,915	181,584	228,784
Application of funds				
Net Fixed Assets	630	685	750	815
Investments	32,104	36,146	44,821	57,371
Advances	68,335	93,290	119,091	148,925
Cash and bank	8,685	9,040	6,378	10,228
Balances with bank	2,316	3,104	6,557	6,740
Other assets	3,523	3,650	3,986	4,705
Total	115,594	145,915	181,584	228,784

Key Ratios

YE March (mn)	FY10	FY11	FY12E	FY13E
Yield on Investments	6.9	7.2	7.2	7.0
Yield on advances	13.0	12.5	12.6	12.6
Cost of deposits	6.7	6.2	6.4	6.4
Cost of funds	6.7	6.2	6.3	6.4
NIM	3.2	3.6	3.6	3.6
Interest Spread	4.8	5.1	5.0	5.0
RoA	1.5	1.7	1.7	1.8
RoE	20.6	24.1	25.2	25.6
Gross NPA	1.4	1.2	1.2	1.1
Net NPA	0.6	0.5	0.5	0.4
Growth in advances	21.0	36.5	27.7	25.1
Growth in deposits	25.3	25.6	23.5	28.3
Growth in investments	33.9	12.6	24.0	28.0
Share of CASA	21.9	19.6	19.2	18.7
CD (x)	66.4	72.2	74.7	72.8
ID (x)	31.2	28.0	28.1	28.0
CAR	13.5	12.8	12.4	12.2
Tier 1 ratio	12.4	11.8	11.7	11.7
Tier 2 ratio	1.1	0.9	0.7	0.6
EPS (₹)	3.8	5.4	7.0	8.9
BV (₹)	20.7	24.9	30.9	38.8
ABV (₹)	19.7	23.7	29.6	37.3
P/E (x)	11.5	8.1	6.3	4.9
P/BV (x)	2.1	1.8	1.4	1.1
P/ABV (x)	2.2	1.9	1.5	1.2

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