

City Union Bank



DOLAT CAPITAL

CMP: ₹ 48

TP: ₹ 70

Buy

Core interest income, operating profit & bottom-line ahead of expectations

Strong business growth continues with rebound in better liability side management

Further improvement in asset quality and stable margin improves overall quality of result

We reiterate our positive stance on the stock with a target price of ₹ 70

In Q4 FY12, City Union Bank's (CUB) NII grew 14.7% YoY to ₹ 1.4bn — 7.8% higher than our estimates. NIM fell to 3.39% from 3.79% in Q4 FY11 and rose from 3.24% in Q3 FY12. Higher rise in yield on funds (37bps QoQ) as against cost of funds (20bps QoQ) aided margin (on sequential basis) and core interest income.

Other income grew 36% to ₹ 612mn from Rs 450mn in Q4FY11 (primarily, on account of 115% YoY jump in treasury income and 135% YoY rise in forex gains). Hence higher core interest income and non-fund income resulted in higher than expected 17% YoY jump in operating profit to ₹ 1.14bn (Dolat est: ₹ 1.0bn).

Decline of 18% YoY in total provisions (excluding tax expenses) to ₹ 295mn & 53% YoY decrease in NPL provisioning to ₹ 193mn further aided bottom-line growth. It reported a bottom-line of ₹ 720mn compared to our estimates of ₹ 559mn and consensus estimate of ₹ 615mn.

Q4FY12 Result (₹ mn)

Particulars	Q4FY12	Q3FY12	Q4FY11	QoQ (%)	YoY (%)	FY12	FY11	YoY (%)
Interest Income	4,761	4,386	3,461	9.0	38.0	16,968	12,184	39.0
Interest Expenditure	3,395	3,157	2,270	8.0	50.0	11,970	7,984	50.0
Net interest income	1,367	1,228	1,191	11.0	15.0	4,998	4,200	19.0
Other operating income	612	508	450	21.0	36.0	2,071	1,574	32.0
Total Net Income	1,979	1,736	1,641	14.0	21.0	7,070	5,774	22.0
Overheads	836	686	667	22.0	25.0	2,798	2,164	29.0
Operating profit	1,142	1,049	974	9.0	17.0	4,271	3,610	18.0
Tax	127	71	100	80.0	27.0	630	670	-6.0
Provisions	295	257	360	15.0	-18.0	838	790	6.0
Net profit	720	722	514	0.0	40.0	2,803	2,151	30.0
Equity Capital	408	407	405			408	405	
EPS (in unit INR)	1.76	1.77	1.27	-1.0	39.0	6.87	5.31	29.0
GNPA	1,235	1,292	1,125	-4.0	10.0			
NNPA	540	561	484	-4.0	12.0			
GNPA (in %)	1.01	1.17	1.21					
NNPA (in %)	0.44	0.51	0.52					
Return on assets (RoA)	1.62	1.71	1.48			1.71	1.67	

Financials

Year	NII	PPP	NP	NIM (%)	BV (₹)	ABV (₹)	RoAA (%)	RoAE (%)	P/B (x)	P/ABV (x)	P/E (x)
FY11	4,200	3,610	2,151	3.3	25	24	1.6	23.5	1.9	2.0	9.0
FY12E	4,998	4,271	2,803	3.1	30	29	1.7	24.9	1.6	1.6	7.0
FY13E	6,155	4,967	3,211	3.1	38	37	1.6	21.8	1.3	1.3	6.7
FY14E	7,585	5,888	3,894	3.1	45	44	1.5	20.9	1.1	1.1	5.5

Figures in ₹ mn

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High Points

- Core performance beats our estimate
- Sequential uptick in margin
- Traction in forex gains & treasury income aided non-fund income growth
- Improvement in asset quality decrease in GNPA and high coverage ratio
- View: Reiterate our Buy rating with a revised target price of ₹ 70 (Earlier TP: ₹ 60)

Scrip Details

Equity	₹ 408.2mn
Face Value	₹ 1/-
Market Cap	₹ 19.6bn
	USD 0.4bn
52 week High / Low	₹ 52 / 39
Avg. Volume (no)	403,399
BSE Sensex	16,153
NSE Nifty	4,891
Bloomberg Code	CUBK IN
Reuters Code	CTBK.BO

During the quarter, asset quality improved with net NPA ratio declining by 7bps QoQ & 8bps YoY to 0.44% and gross NPA ratios declining by 16bps QoQ & 20bps YoY to 1.01%. Provision coverage ratio remains stagnant at 77%. CUB's gross slippage ratio decreased to 1.17% from 2.2% in Q3 FY12 and 2.68% in Q4 FY11. The total outstanding restructured loan book at the end of Q4 FY12 stood at Rs 2.7bn (slight decline from ₹ 2.8bn as on Q3 FY12). During this quarter, the bank has not restructured any accounts.

In FY13, in our view, the bank's business would expand by 25.3% YoY with slight drift in margin. During FY14, we estimate CUB's RoAA and RoAE at 1.5% and 20.9% respectively. We revise our earnings estimates upward for FY13 and FY14 by 16.0% and 20.2% respectively and revise our price target by 16.7% to Rs 70. We reiterate our **Buy** rating on the stock with a target price of ₹ 70 at 1.59x adjusted book value FY14. At current price, it quotes at 1.3x and 1.1x ABV FY13 and FY14 respectively.

Strong business growth: In Q4 FY12, City Union Bank's (CUB) total business grew 28.3% YoY to ₹ 285bn. Deposits and gross advances grew 26.5% and 30.8% to ₹ 163bn and ₹ 122bn respectively. Credit-deposit ratio increased to 74.7% from 72% in Q3 FY12 and 72.2% in Q4 FY11. On the deposits side, the CASA share declined to 18.2% from 19.6% in Q4 FY11; however rose from 16.8% in Q3 FY12.

On the credit book side, trading & MSME loans, which earn higher yields, constitute about 50% of the credit book. CUB's major industry exposure is to textile and iron & steel industries. The bank's management does not foresee any significant change in credit portfolio composition going forward; retail trade, whole-sale trade and SME would remain mainstay for expanding credit book.

We expect business to expand 24.9% CAGR in FY12-14. We also expect CUB's credit book and deposits to grow 25.2% and 24.7% CAGR respectively in FY12-14. Rapid branch expansion and entry into new geographies will aid low-cost deposit mobilization.

Sequential uptick in margin: NIM fell to 3.39% from 3.79% in Q4 FY11; however rose from 3.24% in Q3 FY12. Higher rise in yield on funds (37bps QoQ) as against cost of funds (20bps QoQ) aided margin on sequential basis. Going ahead, margin could be under strain mainly due to pressure on CASA share and declining trend in interest rate cycle; almost 80% of the bank's credit book is on floating rate basis. We expect a slight drift in margins due to faster decline in lending rates; we estimate margin to be in the 3.05-3.10% range for FY12-13.

Operating expenses led by branch expansion: In Q4 FY12, the bank added 14 branches and 123 ATMs, taking the total branch network to 300 branches and 501 ATMs. This resulted in slight higher operating overheads; it rose 25% to ₹ 836mn. The bank's cost-income ratio increased to 42.3% from 40.6% in Q4 FY11 and 40% in Q3 FY12. On the back of better operating efficiencies in place, we expect CUB's C-I ratio to remain in the range of 41-42%.

Non-fund income aided operating profit levels: Other income grew 36% to ₹ 612mn from ₹ 450mn in Q4FY11 (primarily, on account of 115% YoY jump in treasury income and 135% YoY rise in forex gains). Hence non-fund income resulted in higher than expected 17% YoY jump in operating profit to ₹ 1.14bn (Dolat est: ₹ 1.0bn). On fee income front, the bank's management expects that core fee income would grow in-line with credit growth. Going forward, it is expected that bank will maintain its non-fund income growth at 12.7% CAGR over FY12-14 primarily, on account of higher fee income.

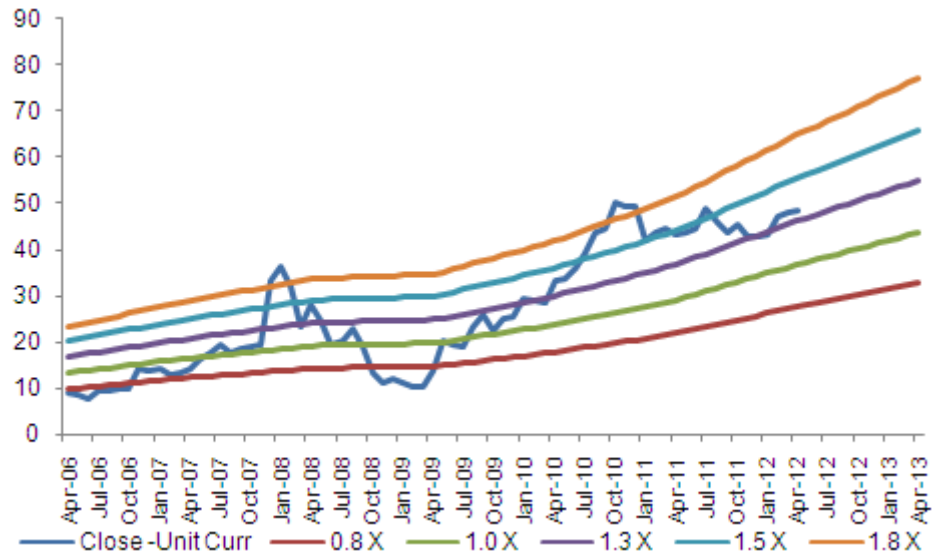
Better asset quality on sequential basis: During the quarter, CUB's gross NPA and net NPA sequentially decline by 4.4% and 3.6% to ₹ 1.2bn and ₹ 540mn respectively. Net NPA and gross NPA ratios sequentially drifted down by 7bps and 16bps to 0.44% and 1.01% respectively. The ratios declined YoY by 8bps and 20bps respectively. Provision coverage ratio remains stagnant at 77%. Overall, asset quality improved during the quarter.

The gross slippage ratio decreased to 1.17% from 2.2% in Q3 FY12 and 2.68% in Q4 FY11. The total outstanding restructured loan book at the end of Q4 FY12 stood at ₹ 2.7bn (slight decline from ₹ 2.8bn as on Q3 FY12). During this quarter, the bank has not restructured any accounts. Almost 86% of the restructured loan book completed one year of principal repayment after the moratorium period.

Valuation

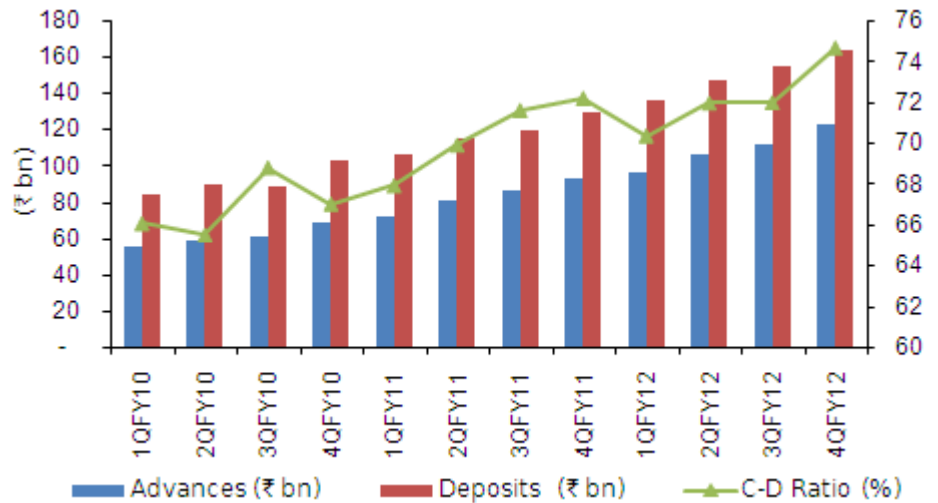
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City Union Bank's P/BV Chart



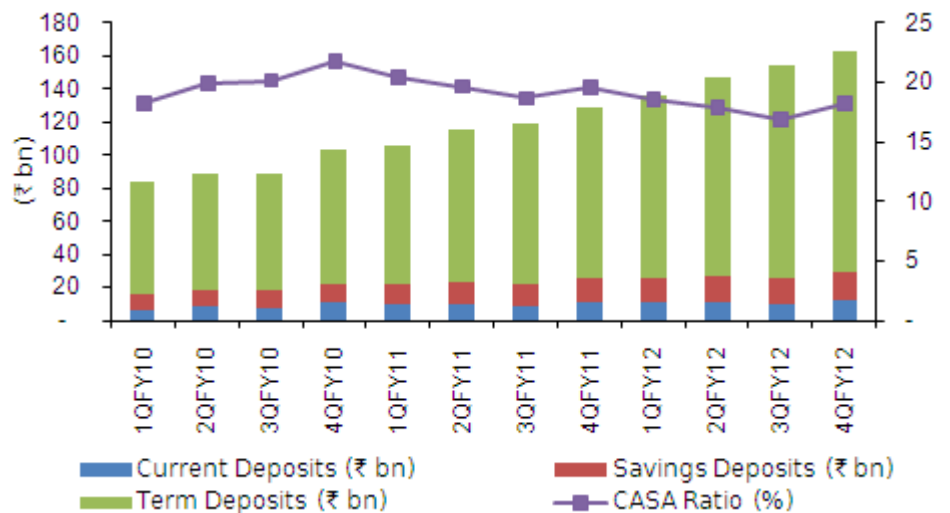
Source: Company, Dolat Research

City Union Bank's Business mix



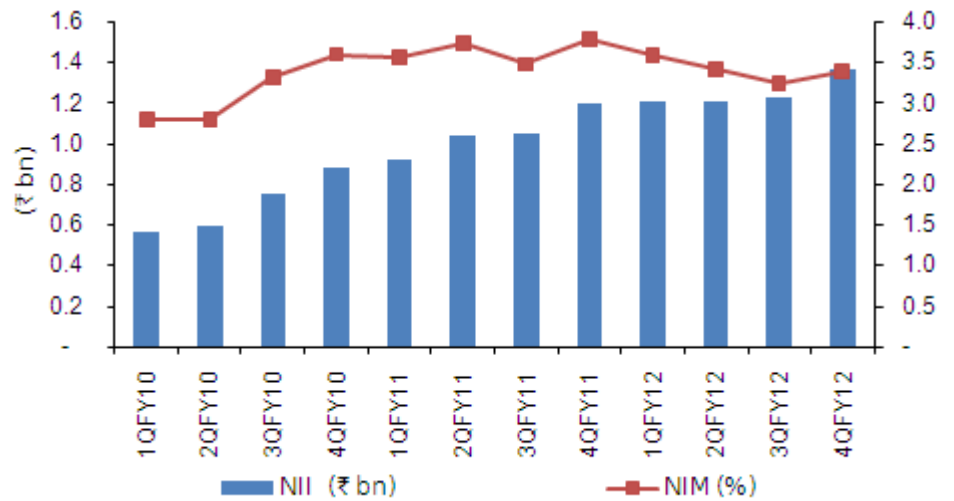
Source: Company, Dolat Research

City Union Bank's Deposit Profile



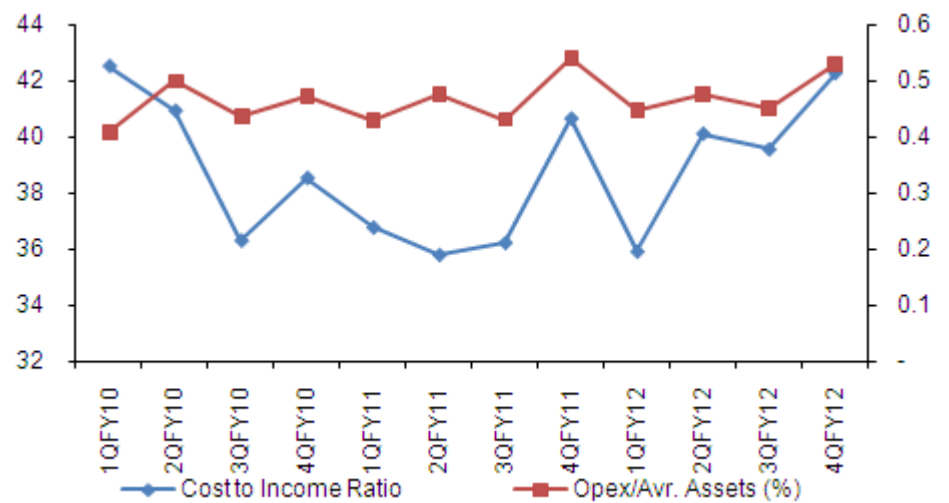
Source: Company, Dolat Research

City Union Bank's NII & NIM



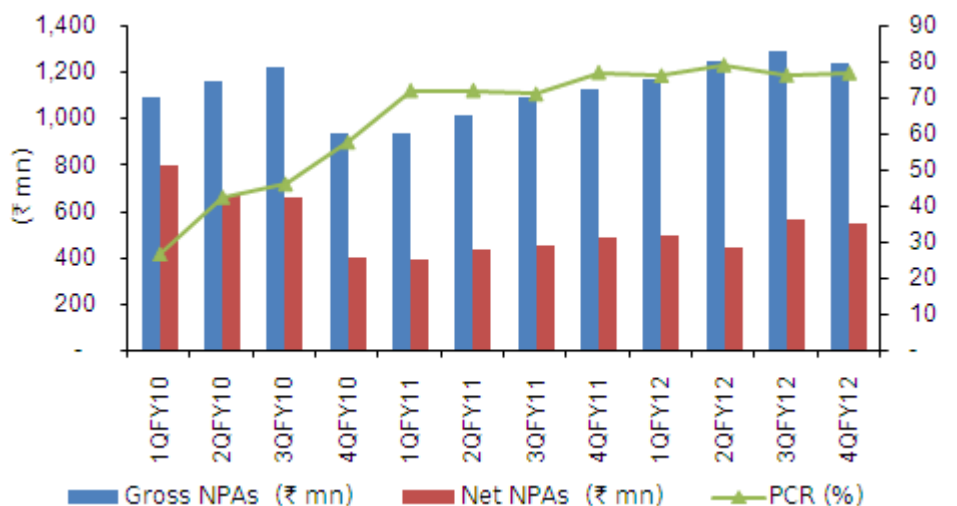
Source: Company, Dolat Research

City Union Bank's Operating Cost Structure (%)



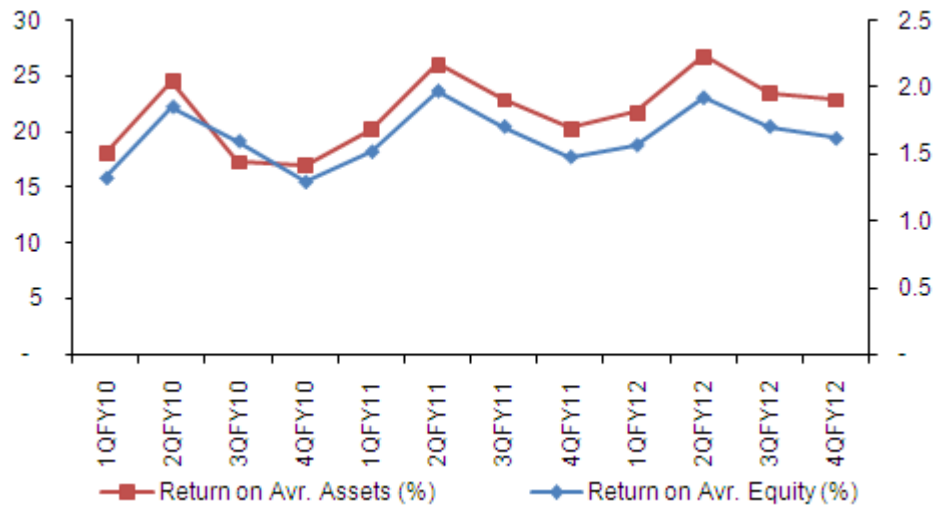
Source: Company, Dolat Research

City Union Bank's Asset Quality



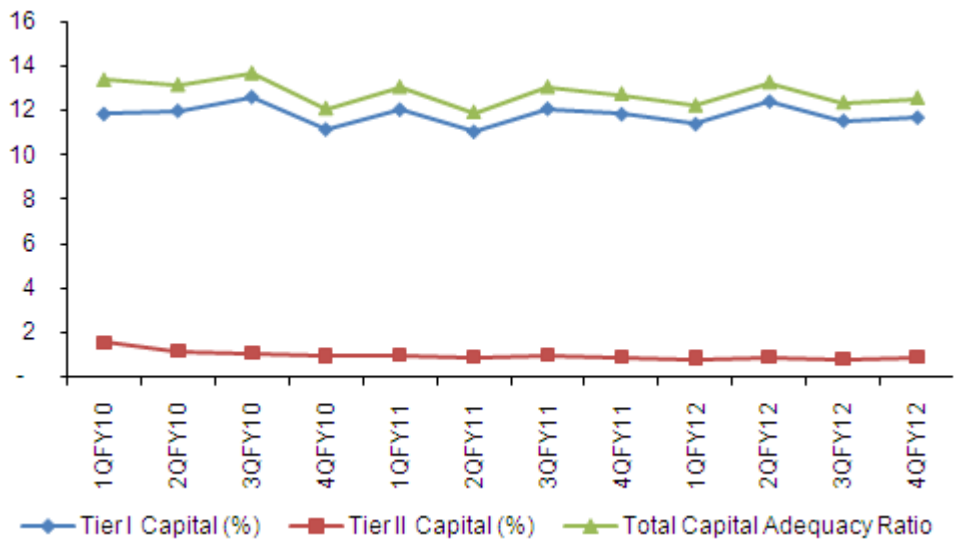
Source: Company, Dolat Research

City Union Bank's Return Ratios (%)



Source: Company, Dolat Research

City Union Bank's Capital Adequacy (%)



Source: Company, Dolat Research

INCOME STATEMENT

₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Net Interest Income	4,200	4,998	6,155	7,585
CXB	303	345	425	532
Profits on sale of investments	66	78	60	50
Profits on foreign exchange	106	152	168	196
Other operating income	1,099	1,497	1,658	1,853
Total other income	1,574	2,071	2,311	2,631
Total Income	5,774	7,069	8,466	10,216
Salaries	1,016	1,223	1,514	1,905
Other operating costs	1,148	1,575	1,985	2,423
Total Overheads	2,164	2,798	3,499	4,328
Profit before provisions	3,610	4,271	4,967	5,888
Bad Debt Provisions	673	648	688	711
Stnd. Asset Provision	75	128	198	240
Investment Provisions	76	74	65	62
Other provision	(34)	(12)	20	26
Total provisions	790	838	971	1,039
Profit before tax	2,821	3,433	3,996	4,849
Tax	670	630	785	955
Reported Net profit	2,151	2,803	3,211	3,894

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Cash with RBI	10,522	8,147	12,758	16,025
Cash at call	2,341	3,214	3,620	4,455
Total Cash	12,863	11,361	16,378	20,480
Govt. securities	28,847	37,836	42,339	50,781
Other investments	7,315	8,026	8,981	10,772
Total Investments	36,162	45,862	51,320	61,553
Bills discounted	1,845	4,248	5,337	6,658
Cash credit	53,156	61,901	77,772	97,013
Term loans	37,553	55,225	69,384	86,551
Total Credit	92,555	121,375	152,493	190,221
Gross Fixed Assets	1,691	1,835	2,040	2,142
Accumulated Depreciation	1,006	858	1,132	1,189
Net Fixed Assets	685	977	908	953
Other Assets	3,650	3,932	9,274	11,683
Total Assets	145,915	183,507	230,373	284,891

Demand Deposits	10,876	12,030	14,305	17,788
Savings Deposits	14,407	17,680	21,457	26,682
Term Deposits	103,859	133,698	168,589	209,645
Total Deposits	129,143	163,408	204,350	254,115
Subordinate Debt	400	750	1,100	1,350
Other Borrowings	1,462	2,737	3,385	4,295
Total Borrowings	1,862	3,487	4,485	5,645
Other liabilities	4,845	4,181	4,473	4,853
Equity	405	408	448	448
Reserves	9,661	12,023	16,617	19,829
Total Equity	10,066	12,431	17,065	20,278

Total Liab & Equity **145,915** **183,507** **230,373** **284,891**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
DPS (₹)	0.9	1.0	1.1	1.3
Book Value (₹)	24.9	30.5	38.1	45.2
Adjusted Book Value (₹)	23.9	29.4	37.0	44.0
EPS (₹)	5.3	6.9	7.2	8.7
EPS Growth (%)	38.9	29.3	4.3	21.3
Payout (%)	16.0	14.6	15.4	15.0
Net interest margin (%)	3.3	3.1	3.1	3.1
Spread (%)	2.8	2.6	2.6	2.7
Cost-to-income (%)	37.5	39.6	41.3	42.4

ROAA

Net Interest Income	3.2	3.0	3.0	2.9
Other Income	1.2	1.3	1.1	1.0
Less Overheads	(1.7)	(1.7)	(1.7)	(1.7)
Less Provisions	(0.6)	(0.5)	(0.5)	(0.4)
Less Tax	(0.5)	(0.4)	(0.4)	(0.4)
ROAA	1.6	1.7	1.6	1.5
ROAE	23.5	24.9	21.8	20.9

Valuation

Price Earnings (x)	9.0	7.0	6.7	5.5
Price to Book Value (x)	1.9	1.6	1.3	1.1
Price to Adjusted BV (x)	2.0	1.6	1.3	1.1
Dividend Yield (%)	1.8	2.1	2.3	2.7

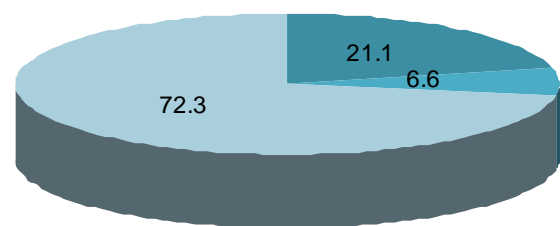
Asset Quality

Gross NPLs	1,125	1,236	1,496	1,688
Restructured standard Loans	2,976	2,685	3,155	3,471
Gross Impaired Loans	4,101	3,921	4,651	5,159
Net NPLs	484.2	540.4	607.4	699.4
Provision coverage ratio (%)	57.0	56.3	59.4	58.6
Gross NPLs (%)	1.2	1.0	1.0	0.9
Net NPLs (%)	0.5	0.4	0.4	0.4

Assumptions

Yield on Advances (%)	12.0	13.0	12.6	12.5
Yield on Investment (%)	7.2	7.4	7.1	7.0
Cost of Deposits (%)	6.7	8.0	7.8	7.7
Interest Inc. on Cash (%)	0.7	0.4	0.5	0.5
CRAR (%)	12.7	12.6	13.0	12.5
Growth in credit book (%)	35.4	31.1	25.6	24.7
Growth in Deposits (%)	25.6	26.5	25.1	24.4
Growth in Investments (%)	12.6	26.8	11.9	19.9
Gross slippages ratio (%)	1.5	1.3	1.2	1.1
Credit Cost (%)	0.8	0.6	0.5	0.4

E-estimates

Shareholding Pattern as on Mar'12 (%)


■ FII ■ DII ■ Public / Others

BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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