

**FEBRUARY 14, 2014**
**BUY**
**MEDIUM RISK**
**PRICE Rs.48**
**TARGET Rs.58**

## BFSI

### EARLIER RECO

BUY	
Price	Rs.47
Target	Rs.58
Date	Nov. 12, 2013

### SHARE HOLDING (%)

Promoters	-
FII	21.8
FI / MF	7.8
Body Corporate	17.0
Public & Others	53.4

### STOCK DATA

Reuters Code	CTBK.BO	
Bloomberg Code	CUBK IN	
BSE Code	532210	
NSE Symbol	CUB	
Market Capitalization*	Rs. 25,867.2 mn US\$ 413.9 mn	
Shares Outstanding*	538.9 mn	
52 Weeks (H/L)	Rs.60 / 38	
Avg. Daily Volume (6m)	372,594 Shares	
Price Performance (%)		
1M	3M	6M
(2)	3	7
*On fully diluted equity shares		
200 days EMA Rs.50		

 Part of  Bonanza


### ANALYST

 Shreyas Bhukhanwala | +91 22 4093 5096  
[shreyas.bhukhanwala@sushilfinance.com](mailto:shreyas.bhukhanwala@sushilfinance.com)

### SALES:

 Devang Shah | +91 22 4093 6060/62  
[devang.shah@sushilfinance.com](mailto:devang.shah@sushilfinance.com)

City Union Bank Ltd. (CUB) has reported decent set of numbers for the quarter ended December'13 with higher focus on asset quality. We attended the conference call of the company and following are the key highlights of the results.

### Key Highlights of Q3FY14 results

- NII grew by 21% YoY & 4% QoQ on back of modest advances growth & improvement in NIM's which improved by 10 bps to 3.6% (QoQ 3.5%). Core Fee Income grew by 4% YoY to Rs.453 mn. Ongoing branch expansion coupled with one-time ex-gratia payments to employees (~Rs.100-120 mn in Q3) led to sharp rise in operating expenses (higher 30% YoY & 15% QoQ) which led to lower PAT growth of ~5% YoY. C/I increased to 48% v/s 44% in Q2 on back of moderate advances growth & higher operating expenses, however management expects C/I to improve going ahead.
- Advances & Deposits grew by 9% & 11% YoY while both were flat sequentially. Moderate advances growth was on account of conscious management decision to focus on profitable growth instead of aggressive credit growth. CASA improved marginally to 17.5% v/s 16.8% QoQ. Bulk Deposit remains at ~5-6% of the total deposits.
- Asset quality remained stable with GNPA & NNPA at 1.7% (Q2 1.66%) & 0.89% (Q2 0.83%) resp. Slippages came in lower at 0.57% (Rs.907 mn) v/s 0.96% QoQ (Rs.1500 mn) which includes one major account of ~Rs.400 mn from Steel segment. CUB has been focusing more on recovery with recovery rate of ~75-80%. It was successful in recovering ~Rs.400-450 mn from an account which slipped into NPA last quarter while remaining amount expected to be recovered by March'14 (~Rs.600-800 mn). Restructured book as % of advances stood at 1.9% v/s 1.4% in Q2 while PCR stood at 70%.
- Management Guidance: 1) Advances to grow at ~12-14% in FY14 with more focus on profitability 2) NIM's to remain stable at ~3.5-3.6% over the next 2-3 quarters 3) C/I likely to be ~45% over the long run 4) Branch expansion to continue with ~100 branches to be added by FY15E taking the total to ~500 branches 5) Asset quality likely to remain stable with no restructured pipeline 6) Tax Rate likely to be ~20-21% in FY14E.

### OUTLOOK & VALUATION

Despite of the gloom economic scenario, CUB has reported decent set of numbers in Q3FY14 with major focus on profitable growth rather than aggressive credit growth. Moderate advances growth, lower core-fee income along with higher operating expenses did impact the profitability marginally in the current quarter. However with gradual economic recovery, we expect advances growth to be back on track going ahead. In our view, management stance of focusing on quality growth & maintaining healthy margins is likely to auger well for the bank in better times. Hence, considering the strong fundamentals & growth prospects over the long run, we maintain 'BUY' on the stock with a price target of Rs.58.

### KEY FINANCIALS

Y/E	Net Income (Rs mn)	PAT (Rs mn)	AEPS (Rs)	NIM (%)	P/E (x)	P/ABV (%)	ROE (%)	ROA (%)
Mar.								
FY12	4,998	2,802	6.9	3.4	7.0	1.6	24.9	1.7
FY13	6,240	3,220	6.8	3.3	7.1	1.5	22.3	1.6
<b>FY14E</b>	<b>7,786</b>	<b>3,479</b>	<b>6.5</b>	<b>3.5</b>	<b>7.4</b>	<b>1.4</b>	<b>18.9</b>	<b>1.4</b>
<b>FY15E</b>	<b>8,875</b>	<b>3,719</b>	<b>6.9</b>	<b>3.5</b>	<b>7.0</b>	<b>1.2</b>	<b>17.0</b>	<b>1.3</b>

**QUARTERLY STATEMENT**

(Rs.mn)

Y/E March	Q3FY13	Q2FY14	Q3FY14
Interest Income	5,556	6,404	6,461
Interest Expense	3,921	4,506	4,486
<b>Net Interest Income</b>	<b>1,634</b>	<b>1,898</b>	<b>1,975</b>
Other Income	659	617	648
-Core Fee Income	435	454	453
<b>Operating Income</b>	<b>2,293</b>	<b>2,516</b>	<b>2,623</b>
Employee Exps.	451	400	527
Other Operating Exps.	529	708	749
<b>Operating Profit</b>	<b>1,313</b>	<b>1,408</b>	<b>1,347</b>
Provisions & Cont.	311	882	291
-NPL Provisions	240	830	225
<b>PBT</b>	<b>1,002</b>	<b>526</b>	<b>1,056</b>
Tax	150	(318)	165
<b>PAT</b>	<b>852</b>	<b>844</b>	<b>891</b>
(%) YoY	18.0	4.9	4.5

**PROFIT & LOSS STATEMENT**

(Rs.mn)

Y/E March	FY12	FY13	FY14E	FY15E
Interest income	16,968	21,887	26,194	29,955
Interest expense	11,970	15,647	18,409	21,080
<b>Net interest income</b>	<b>4,998</b>	<b>6,240</b>	<b>7,786</b>	<b>8,875</b>
Other income	2,071	2,736	2,941	3,315
<b>Total income</b>	<b>7,069</b>	<b>8,976</b>	<b>10,727</b>	<b>12,190</b>
Operating expenses	2,798	3,742	4,716	5,682
<b>Pre-provision Profit</b>	<b>4,270</b>	<b>5,234</b>	<b>6,011</b>	<b>6,508</b>
Total Provision	928	1,204	1,662	1,801
-Provision for NPL	696	1,112	1,563	1,691
<b>PBT</b>	<b>3,342</b>	<b>4,030</b>	<b>4,349</b>	<b>4,707</b>
Provision for Tax	540	810	870	989
<b>PAT</b>	<b>2,802</b>	<b>3,220</b>	<b>3,479</b>	<b>3,719</b>
Growth %	30.3	14.9	8.0	7.0

**FINANCIAL RATIO STATEMENT**

Y/E March	FY12	FY13	FY14E	FY15E
<b>Profitability Ratios</b>				
EPS	6.9	6.8	6.5	6.9
Earnings growth (%)	28.4	(1.1)	(4.9)	6.9
CEPS	7.2	7.3	7.0	7.5
PPP / Share	10.3	10.7	10.8	11.8
ROAA (%)	1.7	1.6	1.4	1.3
ROE (%)	24.9	22.3	18.9	17.0
Dividend Payout (%)	17.0	17.0	20.0	21.0
<b>Efficiency Ratios (%)</b>				
C-I Ratio (Excl Treasury)	40.0	42.5	44.7	47.3
Other Inc/Total Inc	28.5	29.1	26.2	26.2
Cost Asset Ratio	1.5	1.6	1.8	1.9
CASA	18.2	16.8	17.1	17.4
Business /Emp. (in mn)	85.1	93.9	95.6	101.9
Profitability / Emp.	0.84	0.85	0.84	0.81
<b>Asset Quality Ratios (%)</b>				
Gross NPLs	1.0	1.1	1.7	1.8
Net NPLs	0.4	0.6	0.9	0.9
Coverage	56.2	44.3	47.5	53.3
Provision/ Loans	0.6	0.7	0.9	0.8

Y/E March	FY12	FY13	FY14E	FY15E
<b>Asset-Liab. Profile (%)</b>				
Capital Adequacy Ratio	12.6	14.0	14.8	14.0
- Tier I CAR	11.7	13.3	14.1	13.4
C/D ratio	74.3	75.1	75.8	77.2
Loan Growth	31.1	25.6	12.5	18.5
Deposit Growth	26.5	24.3	11.5	16.3
Balance Sheet Growth	25.8	25.2	13.1	16.8
Equity / Assets	6.8	7.1	7.9	7.7
Equity / Loans	10.2	10.8	11.9	11.5
<b>Spreads Analysis (%)</b>				
Yield on Advances	13.0	13.2	13.4	13.2
Yield on Investments	7.4	7.6	7.6	7.5
Cost of funds	8.0	8.4	8.3	8.3
Net Interest Margin	3.4	3.3	3.5	3.5
<b>Valuation</b>				
Dividend Yield (%)	2.1	2.1	2.3	2.5
BV / Share	30.5	34.6	38.0	43.5
Adjusted BV / Share	29.1	32.5	35.2	40.2
P/E (x)	7.0	7.1	7.4	7.0
P/PPP (x)	4.7	4.5	4.4	4.1
<b>P/ABV (x)</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>

Source: Company, Sushil Finance Research Estimates

## Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid with a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage's on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage's with an occasional Update, wherever possible.

#### Additional information with respect to any securities referred to herein will be available upon request.

This report is prepared for the exclusive use of Sushil Group clients only and should not be reproduced, re-circulated, published in any media, website or otherwise, in any form or manner, in part or as a whole, without the express consent in writing of Sushil Financial Services Private Limited. Any unauthorized use, disclosure or public dissemination of information contained herein is prohibited. This report is to be used only by the original recipient to whom it is sent.

This is for private circulation only and the said document does not constitute an offer to buy or sell any securities mentioned herein. While utmost care has been taken in preparing the above, we claim no responsibility for its accuracy. We shall not be liable for any direct or indirect losses arising from the use thereof and the investors are requested to use the information contained herein at their own risk.

This report has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. The information, on which the report is based, has been obtained from sources, which we believe to be reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of opinion are subject to change without notice.

Sushil Financial Services Private Limited and its connected companies, and their respective directors, officers and employees (to be collectively known as SFSPL), may, from time to time, have a long or short position in the securities mentioned and may sell or buy such securities. SFSPL may act upon or make use of information contained herein prior to the publication thereof.

The Investment horizon of this report is approximately 1 year. Any calls which lapse the time duration of a year would be auto closed without any further notifications/updates. Clients are requested to keep track of the same.