

Current	Previous
CMP : Rs.103	
Rating : BUY	Rating : BUY
Target : Rs.118	Target : Rs.105

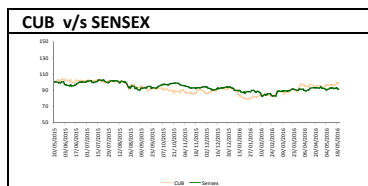
STOCK INFO	
Bse	532210
Nse	CUB
Bloomberg	CUBK IN
Reuters	CTBK.BO
Sector	Banking-Private
Face Value (Rs)	1
Equity Capital (Rs Mn)	598
Mkt Cap (Rs Mn)	61,615
52w H/L (Rs)	106/77
Avg Daily Vol (Bse+Nse)	606,001

SHAREHOLDING PATTERN		%
(as on March 2016)		
Others, Incl Public		100.0
Promoters		0.0

Source: BSE

STOCK PER. (%)	1m	3m	12m
CUB	3%	18%	-2%
Sensex	-2%	9%	-9%

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

City Union Bank (CUB) reported better than expected results on all fronts with pick up in loan book to 17% yoy. As a result, Net Interest income at Rs 2.65 bn was ahead of expectation and grew by 29% yoy. NIMs (rep) improved by 14 bps yoy to 4% led by decline in cost of funds. Despite muted non interest income (up2% yoy), Operating profit grew 25% yoy and came in at Rs 2.2 bn which was ahead of expectation. Provisioning expense grew 22% yoy and Net profit grew 13% yoy to Rs 1.1 bn (vs exp of Rs 1.05 bn). Asset quality continues to remain strong with Gross NPA of 2.4% and Net NPA of 1.5% (increase of 4 bps qoq which is lowest increase amongst all banks reported Q4FY16 results till date). Fresh slippages were stable on qoq at Rs 1.3 bn (which includes slippages of Rs 690 mn from restructured book) and restructured book has come down to 1% which is lowest and best in industry. Our rationales for highlighting CUB as top pick has played well which are – granular loan book, pick up in loan growth (though better than expected), improving ROEs / ROAs by FY18E and stable asset quality. Further management indicated that employee expense is likely to go up in FY17 on back of wage revision and we had already factored in this in our Initiating coverage. Hence our earnings estimates largely remain unchanged both for FY17E and FY18E. CUB remains better than peers on all fronts and hence deserves higher valuation. Hence we upgrade our target multiple to 2x FY18E and raise target to Rs 118. Maintain BUY.

Rs.mn	Q4FY16	Q3FY16	Q4FY15	Q-o-Q %	Y-o-Y %	INSL Q4FY16E	Variance(%)
Net Interest Income	2645	2529	2047	4.6	29.2	2436	8.6
Pre Provision Profit	2240	2069	1788	8.3	25.3	1999	12.1
Net Profit	1122	1131	991	-0.7	13.3	1054	6.5

Source: IndiaNivesh Research

Result update

Loan growth picked up and was better than expectation:

Loan growth of CUB surprised positively as it grew by 17% yoy (10% qoq) to Rs 212 bn. Large Industry advances growth picked up and grew by 27% yoy and MSME too grew healthy at 20% yoy. We have increased our loan book assumptions to 17% CAGR which is inline with management guidance for FY17.

Breakup of Loan book	% of total	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ
Agri	16.0	33911	30413	11.5	27282	24.3
MSME	34.3	72956	60964	19.7	69351	5.2
Large Indus.	6.7	14258	11243	26.8	12732	12.0
Retail Traders	5.0	10709	9710	10.3	10029	6.8
Wholesale Traders	12.8	27281	22470	21.4	24205	12.7
CRE	5.5	11623	9666	20.2	11017	5.5
JL Non Agri	1.2	2499	4162	-40.0	3097	-19.3
Housing	6.8	14456	11413	26.7	13850	4.4
Other Personal Loans	2.8	5983	4971	20.4	5490	9.0
Loans against Deposits	1.9	4134	3866	6.9	3943	4.8
Infra	0.5	1145	1273	-10.1	1168	-2.0
NBFC	0.9	2001	1637	22.2	1666	20.1
Other	5.4	11485	9097	26.3	9914	15.8
Total Advance	100.0	212441	180885	17.4	193744	9.7

Source: Company, IndiaNivesh Research

Daljeet S. Kohli
Head of Research

Tel: +91 22 66188826

daljeet.kohli@indianivesh.in

Yogesh Hotwani
Research Analyst

Tel: +91 22 66188839

yogesh.hotwani@indianivesh.in

NIMs surprised positively with improving CASA:

NIMs (rep) of CUB surprised positively and improved by 14 bps qoq to 4% led by decline in cost of funds by 14 bps qoq. This was led by higher growth in CASA deposits of 14% qoq as against 3% qoq growth in term deposits. As a result, CASA ratio improved by 160 bps qoq to 20.4%.

Yields/Costs/Margins (%)	Q4FY16	Q4FY15	YoY bps	Q3FY16	QoQ bps
NIM	4.0	3.4	56	3.8	14
Cost of Funds	6.4	7.1	-68	6.5	-14
Yield on Funds	9.9	10.1	-23	9.9	-3
Yield on Advances	12.6	13.1	-47	12.7	-8
Yield on Investments	7.5	7.5	-4	7.4	7

Source: reported, IndiaNivesh Research

Deposits mix (Rs mn):

	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ
CASA Ratio (%)	20.4	19.2	114bps	18.8	160bps
CASA Deposits	55325	46307	19.5	48724	13.5
Current Deposits (%)	7.1	6.9	14bps	6.4	71bps
Current Deposits	19192	16681	15.1	16501	16.3
Saving Deposits (%)	13.3	12.3	100bps	12.4	89bps
Saving Deposits	36133	29626	22.0	32223	12.1
Term Deposits	216256	194443	11.2	210868	2.6
Total Deposits	271581	240750	12.8	259592	4.6

Source: Company, IndiaNivesh Research

Asset quality well maintained:

CUB was successful in maintaining its asset quality at Gross / Net NPA of 2.4% / 1.5%, up 4 bps each on qoq. Fresh slippages maintained at Rs 1.3 bn. Bank has restructured Rs 184 mn on back of Chennai floods in TN. One account of Rs 690 mn has slippages to NPA from restructured book in Q4FY16. Hence the restructured book has come down to 2 bn (1% of loan book vs 1.6% in Q3FY16). Further it has provided Rs 92 mn on account of its Food exposure to Punjab Government. There was no asset sale to ARC in Q4FY16 and no account under watch-list.

Gross/Net NPA (Rs mn)	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ
Gross NPA	5120	3358	52.5	4599	11.3
Net NPA	3235	2328	38.9	2868	12.8
Fresh Slippages	1274	1085	17.4	1264	0.8
Gross NPA (%)	2.41	1.86	55bps	2.37	4bps
Net NPA (%)	1.53	1.30	23bps	1.49	4bps
Fresh Slippages (%) - ann	2.40	2.42	-2bps	2.61	-21bps
PCR (%)	60.0	58.0	200bps	61.0	-100bps

Source: Company, IndiaNivesh Research

Valuation:

CUB has delivered much better Q4FY16 performance compared to peers specially on asset quality due to granular loan book, no major consortium lending and pick up in loan growth better than what we had built in. While cost to income ratio is likely to inch up in FY17E mainly due to wage revision, our estimates largely remains unchanged mainly because we had already built in increase in cost to income in FY17E. At CMP of Rs 103, CUB is trading at P/ABV of 2x and 1.7x for FY17E and FY18E respectively. We believe CUB is likely to trade at premium valuations compared to its peers due to better earnings visibility, healthy loan growth momentum and better ROEs of 17%. Hence we continue to maintain buy with upwards revised target price of Rs 118, valuing it at 2x FY18E (as against 1.8x earlier) which is highest in our banking universe.

Rs mn	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ	FY16	FY15	% YoY
Interest Income	7563	6882	9.9	7470	1.2	29442	26989	9.1
Interest Expense	4918	4835	1.7	4941	-0.5	19632	18915	3.8
Net Interest Income	2645	2047	29.2	2529	4.6	9810	8074	21.5
Non Interest Income	1073	1055	1.7	1033	3.8	4100	4041	1.5
Net Income	3717	3101	19.9	3562	4.4	13910	12115	14.8
Total Income	8635	7936	8.8	8503	1.6	33542	31030	8.1
Total Expenses	1477	1313	12.4	1493	-1.1	5577	5188	7.5
Pre Provisioning Profit	2240	1788	25.3	2069	8.3	8333	6926	20.3
Provisions	708	581	21.8	648	9.2	2306	1825	26.3
Profit Before Tax	1532	1316	16.5	1421	7.9	6027	5101	18.2
Tax	410	325	26.2	290	41.4	1580	1260	25.4
Net Profit	1122	991	13.3	1131	-0.7	4447	3841	15.8
EPS (Rs)	1.9	1.7	12.7	1.9	-0.7	7.4	6.4	15.5
Advances	212531	179655	18.3	193744	9.7			
Deposits	271581	240750	12.8	259592	4.6			
Total Business	484112	420405	15.2	453336	6.8			
Gross NPA	5120	3358	52.5	4599	11.3			
Net NPA	3235	2328	38.9	2868	12.8			
Fresh Slippages	1274	1085	17.4	1264	0.8			

Key Ratios (%)	bps			bps	
NIM	4.0	3.4	56	3.8	14
Cost of Funds	6.4	7.1	-68	6.5	-14
Yield on Funds	9.9	10.1	-23	9.9	-3
Yield on Advances	12.6	13.1	-47	12.7	-8
Yield on Investments	7.5	7.5	-4	7.4	7
Cost to Income Ratio	39.7	42.3	-262	41.9	-219
CASA	20.4	19.2	114	18.8	160
CAR	15.6	16.5	-94	14.6	95
Tier I Capital	15.1	16.0	-94	14.2	92
Credit to Deposit	78.3	74.6	363	74.6	362
Slippages	2.4	2.4	-2	2.6	-21
GNPA	2.4	1.9	55	2.4	4
NNPA	1.5	1.3	23	1.5	4
PCR	60.0	58.0	200	61.0	-100
ROE	15.1	14.9	19	15.2	-6
ROA	1.5	1.5	1	1.5	-4

Source: Company, * calculated, IndiaNivesh Research

Financial Statements:

Income Statement (Rs Mn)	FY15	FY16	FY17E	FY18E
Interest Earned	26,989	29,442	33,325	38,549
Interest Expended	18,915	19,632	22,379	25,753
Net Interest Income	8,074	9,810	10,946	12,796
Other Income	4,150	4,100	4,771	5,406
Net Income	12,224	13,910	15,716	18,202
Total Income	31,139	33,542	38,095	43,955
Total Expenses	5,188	5,577	6,699	7,594
Pre Provision Profit	7,035	8,333	9,017	10,608
Provisions	1,825	2,306	2,244	2,360
Profit before tax	5,210	6,027	6,773	8,248
Tax	1,260	1,580	1,776	2,162
Profit after tax	3,950	4,447	4,997	6,086

Source: IndiaNivesh Research

Balance Sheet (Rs Mn)	FY15	FY16	FY17E	FY18E
Liabilities				
Equity	597	598	598	598
Reserves and Surplus	26,359	29,942	33,260	38,410
Net Worth	26,955	30,540	33,858	39,008
Deposits	240,750	271,581	315,104	365,609
Borrowings	1,688	1,125	1,312	1,541
Other Liabilities & Provisions	9,318	9,293	13,261	14,619
Total Liabilities	278,711	312,520	363,535	420,776
Assets				
Cash and Bank Balance	25,368	26,001	30,167	32,809
Investments	63,653	63,245	73,380	84,776
Advances	179,655	210,569	245,381	288,238
Fixed & Other Assets	10,036	12,705	14,607	14,954
Total Assets	278,711	312,520	363,534	420,776

Source: IndiaNivesh Research

Valuation Ratios	FY15	FY16	FY17E	FY18E
Earning Per Share (Rs)	6.6	7.4	8.4	10.2
Book Value Per Share (Rs)	45.2	51.1	56.6	65.2
Adj Book Value Per Share (Rs)	41.3	45.6	50.9	58.9
Dividend Per Share (Rs)	1.1	1.2	1.3	1.3
P/E (x)	15.6	13.9	12.3	10.1
P/BV (x)	2.3	2.0	1.8	1.6
P/ABV (x)	2.5	2.3	2.0	1.7
Balance Sheet Ratios (%)				
CAR	16.5	15.6	14.5	14.1
Tier I	16.0	15.1	14.1	13.8
Credit/Deposit	73.1	74.6	77.5	77.9
CASA	19.2	20.4	20.4	20.5
Growth Y-o-Y (%)				
Advances	11.6	17.2	16.5	17.5
Deposits	9.3	12.8	16.0	16.0
Total Business	10.3	14.7	16.2	16.7
Net Interest Income	6.3	21.5	11.6	16.9
Other Income	37.8	-1.2	16.4	13.3
Net Profit	10.2	12.6	12.4	21.8
Return Ratios (%)				
ROA	1.5	1.5	1.5	1.6
ROE	16.7	15.5	15.5	16.7
Yield / Margin (%)				
Yield on Funds	11.6	11.4	11.2	11.1
Cost of Funds	8.1	7.7	7.6	7.6
Interest Spread	3.5	3.7	3.6	3.6
Net Interest Margin	3.5	3.8	3.7	3.7
Net Profit Margin	12.7	13.3	13.1	13.8
Other Ratios (%)				
Cost / Income	42.4	40.1	42.6	41.7
Interest Exp. / Interest Inc.	70.1	66.7	67.2	66.8
Gross NPA	1.9	2.4	2.3	2.2
Net NPA	1.3	1.5	1.4	1.3

Source: IndiaNivesh Research