MOTILAL OSWAL | MOSt mid - cap Research

24 May 2016

4QFY16 Result Update | Sector: Bank

City Union Bank

BSE SENSEX	NIFTY
25305	7749
Equity Shares (cr)	59.7
52-Week Range (INR)	1028/406
1,6,12 Abs.Perf.(%)	15/37/114
M.Cap. (Rs cr)	6,204
M.Cap. (US$ b)	95

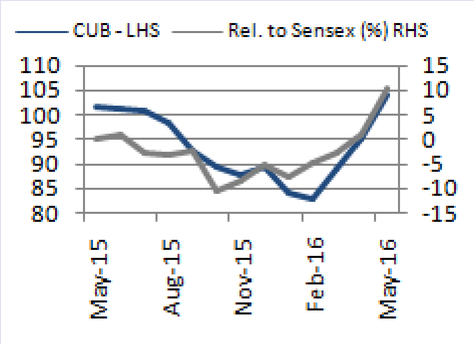
CMP: INR105 TP: INR123 (+17%) Buy

YEAR END	NET INC (INRCr)	PAT (INRCr)	EPS (INR)	EPS Gr.(%)	PE (X)	BV (INR)	P/BV (X)	ROA (%)	ROE (%)
FY16	1391	445	7.4	12	14.0	46	2.3	1.5	15.5
FY17E	1620	535	8.9	20	11.6	52	2.0	1.6	16.4
FY18E	1881	649	10.8	21	9.6	61	1.7	1.7	17.3

Result Highlights - In-line; Advances growth of 17% & NIM expansion drives Adj. PAT growth of 27%

- CUB's Net Income at INR372cr (+20% YoY) is 5% above our estimate of INR355cr on the back of a 17% growth in loan book and 56bp expansion in NIMs to 3.96% on a YoY basis.
- Lower OPEX (+12% YoY) added onto strong beat in Pre Provisioning Profits at INR224cr, an increase of 25% YoY as against our estimate of INR209cr.
- Provisions grew 22% at INR 71cr. Adjusting for one off income in 4QFY15 worth INR 11cr, 4QFY16 PAT came in at 112cr +27% YoY against our estimate of INR110cr, a beat of 2%.
- Asset quality remains stable with GNPAs of 2.41% vs 2.37% QoQ. NIMs were healthy at 3.96% on the back of lower than anticipated decline in yields.

INRCr	4QFY15	3QFY16	4QFY16	YoY	QoQ	FY15	FY16	YoY
Interest Income	688	747	756	10	1	3,103	3,354	8
Interest Expense	484	494	492	2	(0)	1,891	1,963	4
Net Interest Income	205	253	264	29	5	1,211	1,391	15
Other Income	105	103	107	2	4	-	-	-
Net Income	310	356	372	20	4	1,211	1,391	15
Operating Expenses	131	149	148	12	(1)	519	558	7
Operating Profit	179	207	224	25	8	693	833	20
Provisions	58	65	71	22	9	183	231	26
Profit Before Tax	121	142	153	27	8	510	603	18
Tax Provisions	33	29	41	26	41	126	158	25
Net Profit	88	113	112	27	(1)	384	445	16
Loan Growth (%)	12	14	17			12	17	
NIMs (%)	3.4	3.8	4.0			3.5	3.4	
C/I Ratio (%)	42	42	40			43	40	
Gross NPAs (%)	1.86	2.37	2.41			1.9	2.3	



Valuation & View

- Lower exposure to corporates (6% mix) and higher focus on MSME (55% mix) has enabled CUB to stand out among other small private banks. The bank has consciously reduced its share of corporate and gold book from 36% in FY13 to 16% in FY16. Excluding these 2 segments, loan growth for the bank stood at a robust 21%/23% in FY15/FY16. We expect CUB's overall loan book /profits to grow at a CAGR of 20%/21% respectively over FY16-18E.
- Strong track record of healthy advances growth, stable margins, coupled with healthy asset quality over the last many years makes CUB our preferred choice over many PSU & old generation private banks. CAR of 15.6% would enable growth without any dilution over the next three years.
- We maintain 'Buy' on the stock and revise out price target to INR 123 (earlier INR 105 based on FY17 ABV) based on 2.0x FY18E ABV. (20% discount to large private banks).

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