

August 29, 2018

Rating:	BUY
Ticker:	CUB
CMP:	Rs. 197
Target:	Rs. 255
Upside:	29%

Key Stock Data

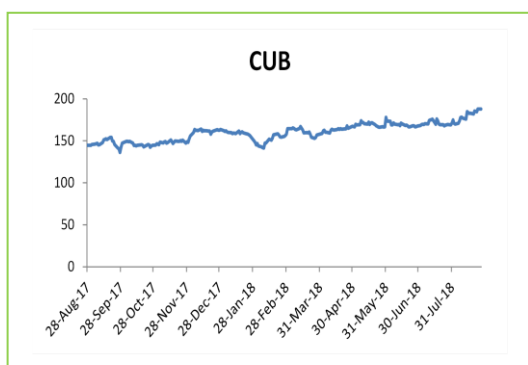
Sector	Banks
No. of shares	66.53 Crs
FV (Rs)	1
MCAP (Rs)	14,277 Crs
MCAP (\$)	202 Crs

Key Financials (Rs. in Crs)

Y/E March	FY18 A	FY19 E	FY20 E
Revenue	3934	4524	4978
PAT	592	723	846
NII	1430	1719	1841
EPS /sh.	9.18	10.88	12.72
BV /sh.	62	71	85
P/BV (x)	3.06	2.68	2.33
PE (x)	20.91	17.64	15.09
ROE (%)	14%	15.22%	15.4%

Shareholding Pattern

Promoters	-
FII's	28.25%
DII's	18.72%
Others	53.03%



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City Union Bank Ltd. – CUB**1QFY19 Result Update**

The Bank reported stupendous set of 1QFY19 numbers on all the counts both on a yearly as well as on a quarterly basis. The topline of the bank grew by 6% Y-o-Y and 3% Q-o-Q to Rs. 1019 Crs in 1QFY19 as against Rs.961 Crs in 1QFY18. Operating Income for the quarter grew by 1% Y-o-Y and 2% Q-o-Q to Rs. 299 Crs in 1QFY19 as against Rs.296 Crs in 1QFY18 and Rs. 294 Crs in 4QFY18. PAT for the quarter grew by good 15% Y-o-Y and 6% Q-o-Q to Rs.161 Crs in 1QFY19 against Rs.140 Crs in 1QFY18 and Rs. 152 Crs in 4QFY18. NII for the quarter grew by 80% Y-o-Y and 2% Q-o-Q to Rs. 375 Crs in 1QFY19 and Rs. 208 Crs in 1QFY18 and Rs. 368 Crs in 4QFY18.

Stable Asset Quality

The asset quality of the bank is improving and has declined by 1 bp on a quarterly basis and by 3 bps on a yearly basis. The NNPA is stable on a sequential basis at 1.7 as declined by 9 bps on a yearly basis at 1.79 in 1QFY18. ROA has increased by 4 bps on a yearly basis and 6 bps on a sequential basis. ROA has been increasing systematically and recorded at 1.64x.

Outlook & Valuations

The bank has reported an improvement in its performance on every count both on a quarterly as well as on a yearly basis. The management is known for walking the talk and has always achieved its guidance. For the year FY19, the Management has guided for 18 – 20% growth rate on its loan book and 16% ROE. We believe the management will continue to achieve its guidance as a result we would like to allot a premium valuation.. CUB is currently trading at 2.3x FY20 P/BV and looking at its historical trend; we would like to allot a P/BV of 3x on FY20 basis on an FY20 BV of Rs. 85 to arrive at a target price of Rs. 255.

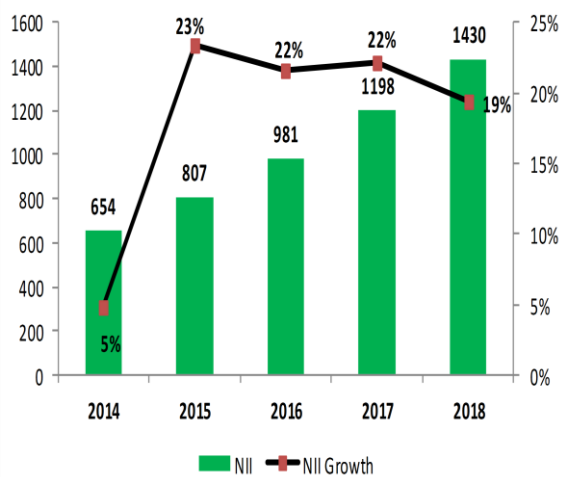
Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	1QFY19	4QFY18	1QFY18	Q/Q	Y/Y	FY2018
Revenue	1019	990	961	3%	6%	3934
Op. Income	299	294	296	2%	1%	1207
PAT	161	152	140	6%	15%	592
GNPA	3.02	3.03	3.05	(1bp)	(3 bps)	3.03
NNPA	1.7	1.7	1.79	NA	(9Bps)	1.7
ROA	1.64	1.58	1.6	6 bps	4 bps	1.6

Investment Rationale

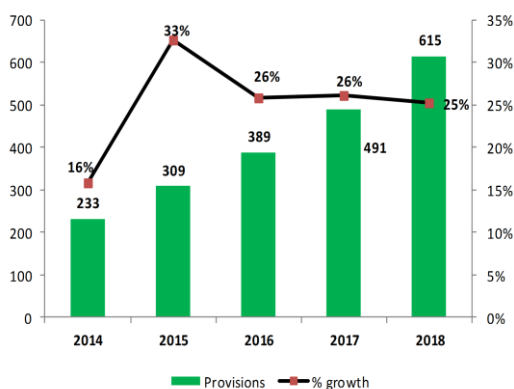
1. Loan Book growth

City Union’s home state is in Tamil Nadu where 415 branches are located out of the total 601 branches in FY18. The bank focuses more on small-ticket SME loans Rs. 2.5m–10m which is 65% of its total loan book mostly comprising of working-capital loans, almost completely collateralised by immovable properties. This strategy in SME lending has paid off very well, resulting in a best in-class NIM and a more stable asset quality than its peers. Management is focused on driving growth in the SME and retail segment and has guided for 18-20% credit growth for FY19. The management has till date walked the talk and we feel in the upcoming quarters too it will be able to achieve its guidance.



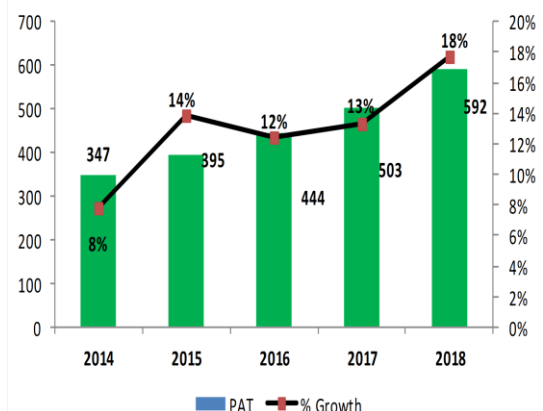
2. Fee Income rising on a sequential basis.

Non-interest income jumped 8% Q-o-Q to Rs. 129 Crs in 1QFY19 as against Rs. 120 Crs in 4QFY18 and led by better than expected fee income of Rs 76 Crs indicating a jump of 12% on a sequential basis after 11% sequential jump in 4Q. This was led by higher PSLC (Priority Sector Lending Certificates) income, guarantee fees etc. Other banking operations grew by 27% Y-o-Y to Rs. 2.4 Crs in 1QFY19 as against Rs. 1.89 Crs in 1QFY18.



3. Stability in Cost/Income Ratio

As the core earnings growth is slower i.e 9% and 2% Y-o-Y and Q-o-Q respectively, muted treasury gains of Rs.19 Crs vs. Rs 30 Crs in Q-o-Q and Rs 39 Crs Y-o-Y and higher operating exchange growth rate of 13% and 6% Y-o-Y and Q-o-Q respectively, led to a rise in 275 bps and 91bps Y-o-Y and Q-o-Q rise in Cost - Income ratio. However the core C-I ratio was flat sequentially, With NIM compression and controlled opex, we believe core C-I shall be in the range of 42- 44% over FY19-20E.



CUB is primarily based out of Tamil Nadu.

CUB in total has a network of 601 branches, out of which 539 branches concentrated in southern India and 415 branches in Tamil Nadu alone.

The bank capitalises on knowledge of its niche market of small businesses, SME and traders primarily based in south India.

CUB's 50% of its loan books consist of SME & MSMEs.

For the year FY19, the Management has guided for 18 – 20% growth rate on its loan book and 16% ROE.

The management is known for walking the talk and has always achieved its guidance.

We believe the management will continue to achieve its guidance as a result we would like to allot a premium valuation.

Company Background

CUB is a South India based small sized bank with a legacy of over 100 years. CUB is primarily based out of Tamil Nadu and in total it has a network of 601 branches, out of which 539 branches concentrated in southern India and 415 branches in Tamil Nadu alone. CUB has a history of 100 years of profits and dividend payouts. CUB's unique feature is that it focuses on its target segment of SME/MSME in southern India, which accounts for approximate 50% of CUB's advances book. The bank capitalises on knowledge of its niche market of small businesses, SME and traders primarily based in south India. Going ahead, the bank maintains that its focus would continue to be the SME/MSME segment. CUB's credit grew above industry at 29% CAGR to Rs. 15246 Crs between FY06 and FY13. However, owing to a weak economic scenario, the bank scaled down its advances traction to 8.6% Y-o-Y CAGR to Rs. 17,965 Crs in FY14-15 and to 14.2% in FY16.

Risk & Concerns

1. CUB like other regional banks has higher exposure towards specific geography i.e. 'Tamil Nadu'. 73% of business is being generated out of the state of TN by the bank. Any major change in the state policies or swing in regional growth environment can immediately affect our earnings estimates for the bank.

Outlook & Valuations

The bank has reported an improvement in its performance on every count both on a quarterly as well as on a yearly basis. The management is known for walking the talk and has always achieved its guidance. For the year FY19, the Management has guided for 18 – 20% growth rate on its loan book and 16% ROE. We believe the management will continue to achieve its guidance as a result we would like to allot a premium valuation. As compare to other regional banks, CUB is well managed and consistent in its good performance. CUB is currently trading at 2.3x FY20 P/BV and looking at its historical trend; we would like to allot a P/BV of 3x on FY20 basis on an FY20 BV of Rs. 85 to arrive at a target price of Rs. 255.

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Analyst Stock Rating	
Ratings	Expected absolute returns over 12 months
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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