

July 26, 2024

RESULT REPORT Q1 FY25 | Sector: Banks

City Union Bank

Upgraded in Feb, CUB stays broadly on track

Our view – Negative net slippages a sign of things to come

Asset quality – Slippages remained under control while recoveries continued their healthy trend: For the quarter, Gross NPA additions had amounted to Rs 1.78bn, implying an annualised gross slippage ratio was 1.5%, while recoveries and upgrades amounted to Rs 1.92bn. The calculated annualised credit cost was 34bps in 1Q. The management has guided that the slippages for FY25 would be lower than Rs 8.0bn and the current level of recoveries to continue for 4-6 quarters.

Balance sheet growth – For the first time in last 10 years, loan growth has not sequentially turned negative in a seasonally weak 1Q: Whole bank advances grew 0.1%/9.8% QoQ/YoY driven sequentially by Agri, Jewel Non-Agri, Housing and NBFC segment. All MSME loans including renewal of loans below Rs 75mn are now processed digitally. Also, 60-70% of the bank's total loan book and 75-80% of non-gold loan book are eligible for the digital process. CUB is looking towards launching new products i.e. LAP, Home loans, Affordable Home Loans and Micro-LAP by September 2024. The management has guided that they are working towards enhancing the current ~10% YoY advances growth momentum to higher levels.

Net interest margin - Margin has shrunk due to various factors but cost of funds has almost peaked: NIM at 3.54% was down -12bps/-13bps QoQ/YoY, sequentially lower due to lower yield on advances. Change in regulation required penal interest on stressed loans to be accounted under Other Income instead of Interest on Loans. Excluding the impact of the penal interest circular NIM would have been 3.6%. Management has guided that the cost of funds for CUB has almost peaked.

We maintain a 'BUY' rating on CUB with an unchanged price target of Rs 210: We value the bank at 1.5x FY26 P/BV for an FY25E/26E RoE profile of 11.4/11.6%. We had upgraded CUB in [report dated Feb 2024](#) for the first time in 3 years.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Aspects (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio at 49.3% was down/up by -191/736bps QoQ/YoY and the Cost to assets was at 2.1% down/up by -8/24bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 0.6%, up 3bps both QoQ and YoY.

Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Interest Income	13,886	13,741	1.1	12,662	9.7
Interest Expense	(8,435)	(8,275)	1.9	(7,436)	13.4
Net Interest Income	5,452	5,466	(0.3)	5,225	4.3
Fee Income	1,007	937	7.5	883	14.0
Non-fee Income	914	815	12.1	1,032	(11.4)
Total Non-Interest Income	1,921	1,752	9.6	1,915	0.3
Total Income	7,373	7,218	2.1	7,140	3.3
Employee Expense	(1,744)	(1,678)	3.9	(1,322)	32.0
Non-employee Opex	(1,894)	(2,022)	(6.3)	(1,676)	13.0
Total Operating expenses	(3,638)	(3,700)	(1.7)	(2,998)	21.4
PPOP	3,735	3,518	6.2	4,143	(9.8)
Provisions	(390)	(320)	21.9	(1,520)	(74.3)
PBT	3,345	3,198	4.6	2,623	27.5
Tax	(700)	(650)	7.7	(350)	100.0
PAT	2,645	2,548	3.8	2,273	16.4

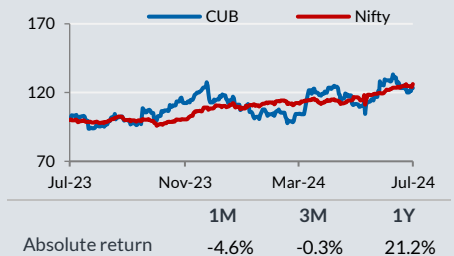
Source: Company, YES Sec-Research

Recommendation	: BUY
Current Price	: Rs 160
Target Price	: Rs 210
Potential Return	: +31%

Stock data (as on July 26, 2024)

Nifty	24,835
52 Week h/l (Rs)	175 / 120
Market cap (Rs/USD mn)	117811 / 1407
Outstanding Shares (mn)	741
6m Avg t/o (Rs mn):	633
Div yield (%):	0.9
Bloomberg code:	CUBK IN
NSE code:	CUB

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	0.0%
FII+DII	56.5%
Others	43.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	210	210

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	21,235	22,625	26,563
PPOP	15,167	15,291	17,856
Net Profit	10,157	10,132	11,445
Growth (%)	8.3	-0.2	13.0
EPS (Rs)	13.7	13.7	15.5
BVPS (Rs)	113	126	141
P/E (x)	11.7	11.7	10.3
P/BV (x)	1.4	1.3	1.1
ROE (%)	12.8	11.4	11.6
ROA (%)	1.5	1.4	1.4
Tier-1 (%)	22.8	22.0	21.5

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	13.7	15.5
EPS (Old)	NA	13.8	15.5
% change	NA	-1.0%	0.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Loan growth

- Overall advances growth amounted to 9.8% YoY but was flat QoQ.
- The bank has not witnessed de-growth in the first quarter for the first time in the last 10 year as it is usually a seasonally weak quarter.
- **Guidance**
 - The bank is working towards further enhancing the current ~10% YoY advances growth momentum further to higher levels.
- **Key segmental growth outcomes**
 - MSME advances were down -1.0% QoQ and -2.8% YoY.
 - JL Non Agri advances was up 3.4% QoQ and 17.5% YoY.
 - NBFC advances was up 17.5% QoQ and 200% YoY.
- **On digital lending initiatives**
 - **Secured Lending**
 - All MSME loans including renewal of loans below Rs 75mn are now processed digitally.
 - The turnaround time is reduced from 2-3months to 2-3 working days.
 - **New Products**
 - The company is looking towards launching new products i.e. LAP, Home loans, Affordable Home Loans and Micro-LAP by September 2024.
 - The team for the same will be in-place by August 2024.
 - **Unsecured Loans**
 - The bank has run a pilot of 2,000 ETB customers for unsecured digital lending and got a hit rate of 10%.
 - The book built under this pilot was only Rs 30-40mn.
 - This has been done for learning for future implementation.
 - **Coverage**
 - The 60-70% of the bank's total loan book and 75-80% of non-gold loan book should be eligible for the digital process

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 1.78bn for 1QFY25, translating to an annualized slippage ratio of 1.5% for the quarter. (Gross NPA additions had amounted to Rs 2.19bn during 4QFY24.)
 - **Guidance**
 - Slippages for the year will be lower than Rs 8.0bn.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 1.92bn for 1QFY25, implying net NPA deletion of -Rs 0.14bn for the quarter.
 - **Guidance**
 - Current level of recoveries are to continue for the coming 4-5 quarters.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 0.39bn, up by 21.9% QoQ but down by -74% YoY, translating to calculated annualised credit cost of 34bps.

(Con call takeaways continue on the next page)

- **Break-up of P&L Provisions**
 - NPA provisions – Rs 0.32bn.
 - Other provisions – Rs 0.07bn.
- **NPA ratios**
 - GNPA ratio stands at 3.9%, down -11bps QoQ and -103bps YoY while NNPA ratio stands at 1.9%, down -10bps QoQ and -64bps YoY.
- **Restructured book**
 - The standard restructured advances stood at Rs 8.28bn or 1.78% of gross advances.
- **SMA**
 - The SMA2 stood at 2.0%.

Deposits growth

- Overall deposits have grown by 6.2% YoY but de-grown by -1.4% QoQ.
- The credit to deposit ratio was at 84% in 1Q
- **Liquidity**
 - The bank can grow advances further by Rs 33bn given existing deposits and other surplus (presumably meant without adding deposits further).

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.54%, down -12 bps QoQ and -13bps YoY.
 - NIM decreased sequentially due to change in regulation that the penal interest on stressed loans accounted under Interest on Loans is now accounted under Other Income as penal charges.
 - Without the penal interest regulation impact, NIM would have been 3.6% for 1Q.
 - The bank was already compliant with the RBI circular on charging interest from the day of actual disbursement and hence did not have any impact from the circular on margin.
- **Yield of Advances**
 - The yield on advances was at 9.59% down by -26bps QoQ but up 6bps YoY.
 - Without the penal interest circular impact, yield on advances would have been 9.67% for 1Q.
- **Cost of deposits**
 - The cost of deposits was at 5.72%, down -3bps QoQ.
- **Cost of funds**
 - The cost of funds was at 4.8%, flat QoQ.
- **Guidance**
 - The cost of funds have almost peaked.
- **On draft LCR Circular**
 - The bank has some deposits overseas which they invested for some extra basis points and on maturity it will bring them back.
 - CUB has non-callable deposits of Rs 29bn which is now getting eligible for LCR calculations.
 - Post the above measures, the bank and also the entire industry's LCR is to converge to around 115-125%, with there being no aberrations (anomalies).
 - There will be no material impact on net interest margin if the Circular were to be implemented as is.

(Con call takeaways continue on the next page)

Return on assets

- CUB has reported an RoA of 1.51% for 1Q, up 3bps QoQ.
- **Guidance**
 - The bank targets maintaining its RoA above 1.5% going forward.

Capital adequacy

- The CET1 ratio stood at 22.6%, down -25bps QoQ but up 57bps YoY.
- **Enabling Resolution**
 - CUB has proposed a resolution for raising funds via QIP in the AGM but it would be just an enabling resolution and the bank does see any need for capital raise.

Operating expenses

- **Total opex**
 - Total opex, at Rs. 3.64 bn, is down -1.7% QoQ but up 21.4% YoY.
 - Consequently, cost/income ratio came in at 49.3%, down by -191bps QoQ but up 736bps YoY.
 - **Guidance**
 - The cost of the new avenues of the retail business will take at least 6 quarters to adjust with the increased business volume.
 - The cost to income ratio would be between 48%-51% for next 4-6 quarters.
- **Staff opex**
 - The staff opex is up 3.9% QoQ and 32% YoY
 - **Guidance**
 - The staff opex in 2Q will be higher QoQ due to increments that happen for the bank in 2Q.
- **Other opex**
 - Other opex was down by -6.3% QoQ but up 13% YoY.
- **Digital initiative cost**
 - BCG has completed the total digital initiative task in June and the total cost paid was Rs 250-300mn, i.e. 2-3% of PAT.
 - The Software and other cost like APIs are additional.
 - The APIs cost is based on pay per use basis.
 - The software cost was around Rs 100-150mn.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1FY25	Q4FY24	% qoq [#]	Q1FY24	% yoy [#]	Q1FY25*	% qoq*	% yoy*
Gross Advances	465,479	464,815	0.1	424,048	9.8	100.0	0bps	0bps
Agri	85,439	83,515	2.3	78,750	8.5	18.4	39bps	-22bps
MSME	174,771	176,492	(1.0)	179,727	(2.8)	37.5	-42bps	-484bps
Large Industries	5,951	4,849	22.7	6,692	(11.1)	1.3	24bps	-30bps
Retail Traders	7,022	7,017	0.1	7,854	(10.6)	1.5	0bps	-34bps
Wholesale Traders	10,942	11,194	(2.3)	15,236	(28.2)	2.4	-6bps	-124bps
Comm Real Estate	27,173	27,288	(0.4)	30,061	(9.6)	5.8	-3bps	-125bps
JL Non Agri	50,214	48,579	3.4	42,719	17.5	10.8	34bps	71bps
Housing	21,529	21,133	1.9	20,452	5.3	4.6	8bps	-20bps
Personal Loans	13,116	13,634	(3.8)	9,643	36.0	2.8	-12bps	54bps
LCDs	7,520	8,249	(8.8)	6,547	14.9	1.6	-16bps	7bps
Infra	3,096	3,032	2.1	3,017	2.6	0.7	1bps	-5bps
NBFC	14,034	11,946	17.5	4,657	201.4	3.0	44bps	192bps
Others	44,672	47,887	(6.7)	18,693	139.0	9.6	-71bps	519bps
Total Deposits	548,569	556,566	(1.4)	516,548	6.2	100.0	0bps	0bps
CA	46,242	54,888	(15.8)	47,351	(2.3)	8.4	-143bps	-74bps
SA	115,708	115,613	0.1	111,580	3.7	21.1	32bps	-51bps
Term	386,619	386,064	0.1	357,617	8.1	70.5	111bps	125bps

Source: Company, YES Sec - Research, *Share in Total and change in share, [#]The bank has re-classified MSME loans' reporting and hence the segmental advances are not comparable QoQ and YoY

Exhibit 3: Key quarterly ratios

(%)	Q1FY25	Q4FY24	chg qoq	Q1FY24	chg yoy
Net interest margin	3.54	3.66	-12bps	3.67	-13bps
Yield on advances	9.59	9.85	-26bps	9.53	6bps
Cost of deposits	5.72	5.75	-3bps	5.36	36bps
Loan to Deposit ratio	85.0	84.0	100bps	82.0	300bps
Non-int. income / Total Income	26.1	24.3	178bps	26.8	-76bps
Fee Income to Avg. Total Assets	0.6	0.5	3bps	0.5	3bps
Cost to Income ratio	49.3	51.3	-191bps	42.0	736bps
Opex to Avg. Total Assets	2.1	2.1	-8bps	1.8	24bps
RoA	1.5	1.5	3bps	1.4	11bps
RoE	12.5	12.4	6bps	12.1	35bps
Annualised Slippage Ratio	1.5	1.9	-36bps	3.6	-208bps
Provision coverage ratio	73.0	72.0	100bps	70.0	300bps
Gross NPA	3.9	4.0	-11bps	4.9	-103bps
Net NPA	1.9	2.0	-10bps	2.5	-64bps
Capital adequacy ratio	23.6	23.8	-26bps	23.0	56bps
Tier I capital ratio	22.6	22.8	-25bps	22.0	57bps

Source: Company, YES Sec - Research

Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	5,452	5,673	(3.9)
Pre-Prov. Operating Profit	3,735	3,678	1.6
Profit After Tax	2,645	2,645	(0.0)

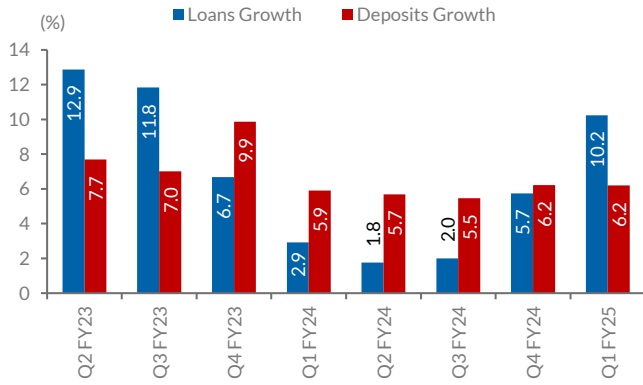
Source: Company, YES Sec - Research

Exhibit 5: Non-Interest Income Break-up

(Rs mn)	Q1FY25	Q4FY24	% qoq	Q1FY24	% yoy
Total Fee Income (A)	1,007	937	7.5	883	14.0
CEB and Charges	1,007	937	7.5	883	14.0
Total Other Income (B)	914	815	12.1	1,032	(11.4)
Treasury Income	172	319	(46.1)	405	(57.5)
Other Income (incl recoveries)	742	496	49.6	627	18.3
Total Non-Interest Income (A+B)	1,921	1,752	9.6	1,915	0.3

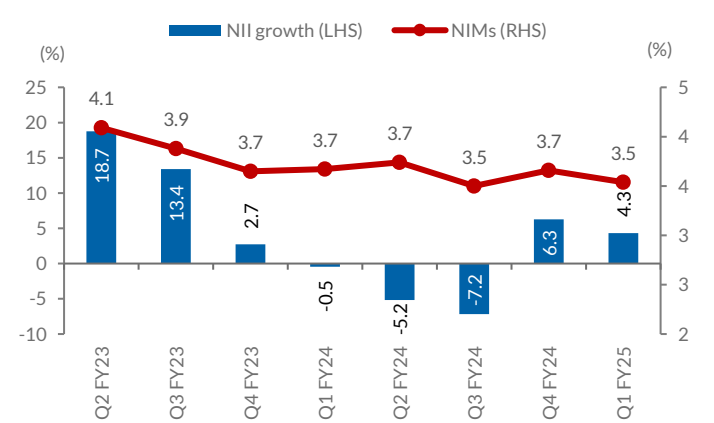
Source: Company, YES Sec – Research

Exhibit 6: Loans and Deposits growth (YoY %)



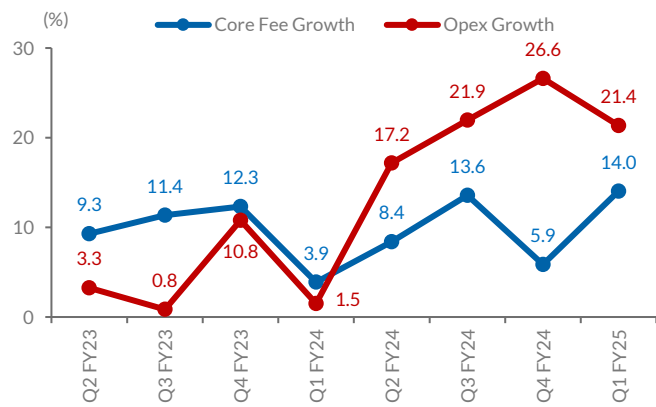
Source: Company, YES Sec – Research

Exhibit 7: NII growth (YoY %) and NIM (%)



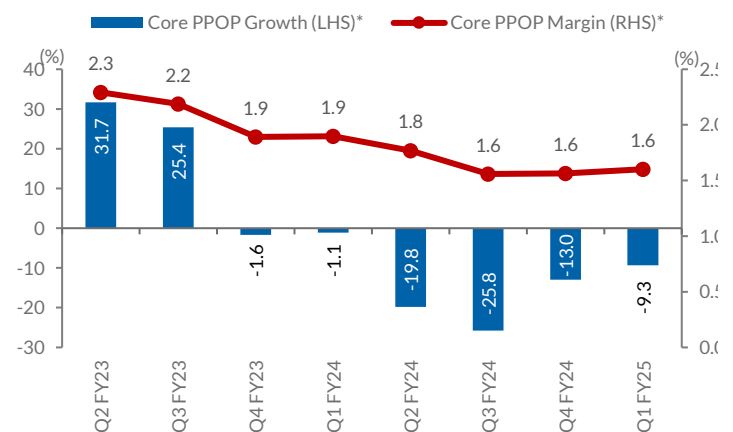
Source: Company, YES Sec – Research

Exhibit 8: Core Fee and Opex growth (YoY %)



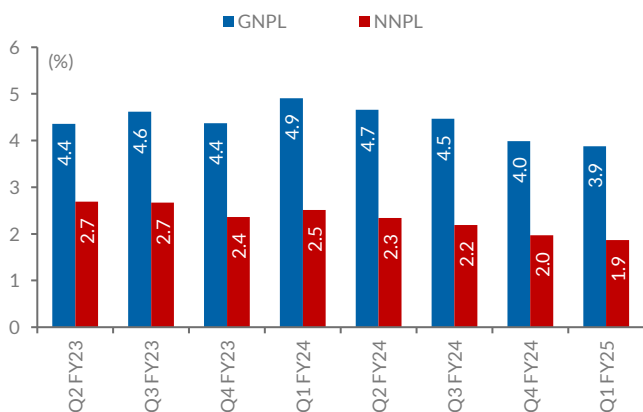
Source: Company, YES Sec – Research

Exhibit 9: Core PPOP growth (YoY %) and Core PPOP margin (%)



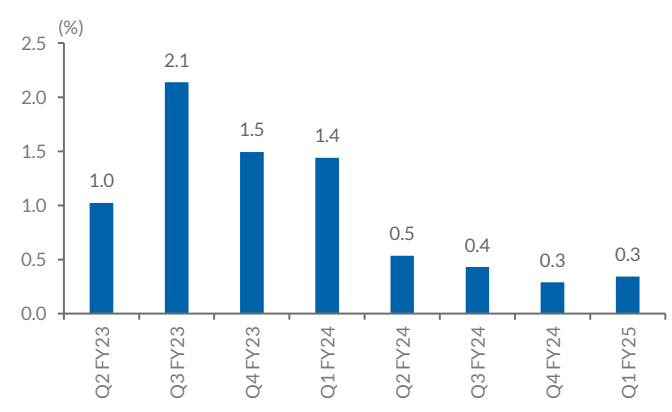
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 10: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 11: Provisions/Average Advances (%)



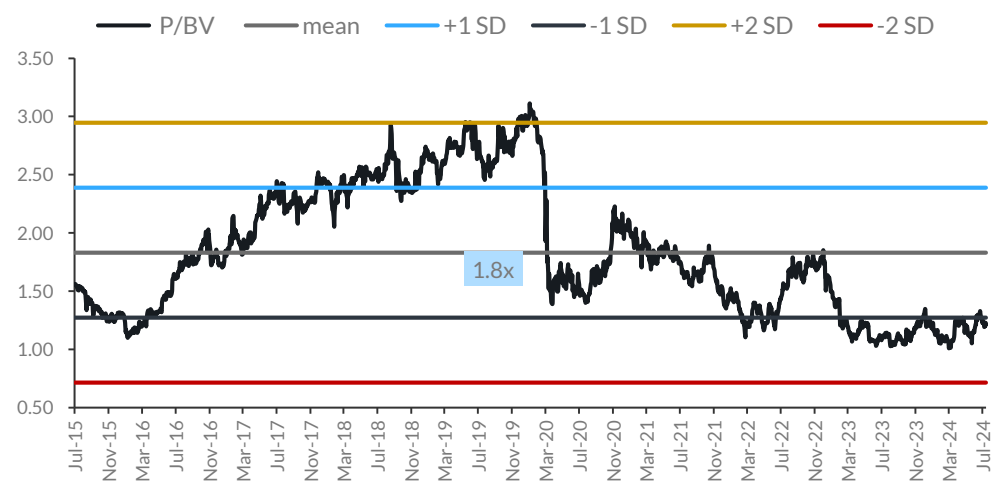
Source: Company, YES Sec – Research

Exhibit 12: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 13: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	66,869	66,493	69,435	77,768	88,655
Investments	122,212	143,326	156,641	172,170	189,251
Advances	403,585	430,533	455,257	509,888	581,272
Fixed assets	2,147	2,393	2,704	2,974	3,272
Other assets	20,496	23,200	24,221	27,128	30,383
Total assets	615,309	665,946	708,259	789,927	892,833
Net worth	65,857	74,572	84,014	93,406	104,110
Deposits	476,897	523,979	556,566	622,123	707,785
Borrowings	53,118	46,881	47,242	49,427	52,282
Other liabilities	19,437	20,514	20,436	24,971	28,657
Total liabilities incl. Equity	615,309	665,946	708,259	789,927	892,833

Source: Company, YES Sec – Research

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	41,048	47,143	52,706	57,625	64,818
Interest expense	(21,883)	(25,515)	(31,471)	(35,000)	(38,256)
Net interest income	19,165	21,628	21,235	22,625	26,563
Non-interest income	7,591	8,104	7,417	7,653	8,252
Total income	26,756	29,732	28,651	30,278	34,814
Operating expenses	(10,803)	(11,552)	(13,484)	(14,987)	(16,958)
PPoP	15,953	18,180	15,167	15,291	17,856
Provisions	(6,102)	(6,405)	(2,860)	(2,465)	(3,368)
Profit before tax	9,852	11,775	12,307	12,825	14,487
Taxes	(2,250)	(2,400)	(2,150)	(2,693)	(3,042)
Net profit	7,602	9,375	10,157	10,132	11,445

Source: Company, YES Sec – Research

Exhibit 16: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest income	7.1	7.4	7.7	7.7	7.7
Interest expense	-3.8	-4.0	-4.6	-4.7	-4.5
Net interest income	3.3	3.4	3.1	3.0	3.2
Non-interest income	1.3	1.3	1.1	1.0	1.0
Total income	4.7	4.6	4.2	4.0	4.1
Operating expenses	-1.9	-1.8	-2.0	-2.0	-2.0
PPoP	2.8	2.8	2.2	2.0	2.1
Provisions	-1.1	-1.0	-0.4	-0.3	-0.4
Profit before tax	1.7	1.8	1.8	1.7	1.7
Taxes	-0.4	-0.4	-0.3	-0.4	-0.4
Net profit	1.3	1.5	1.5	1.4	1.4

Source: Company, YES Sec – Research

Exhibit 17: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	NA	22,625	26,563	NA	23,500	26,563	NA	(3.7)	0.0
Pre-Prov. Operating Profit	NA	15,291	17,856	NA	15,903	17,856	NA	(3.9)	0.0
Profit after tax	NA	10,132	11,445	NA	10,235	11,445	NA	(1.0)	0.0

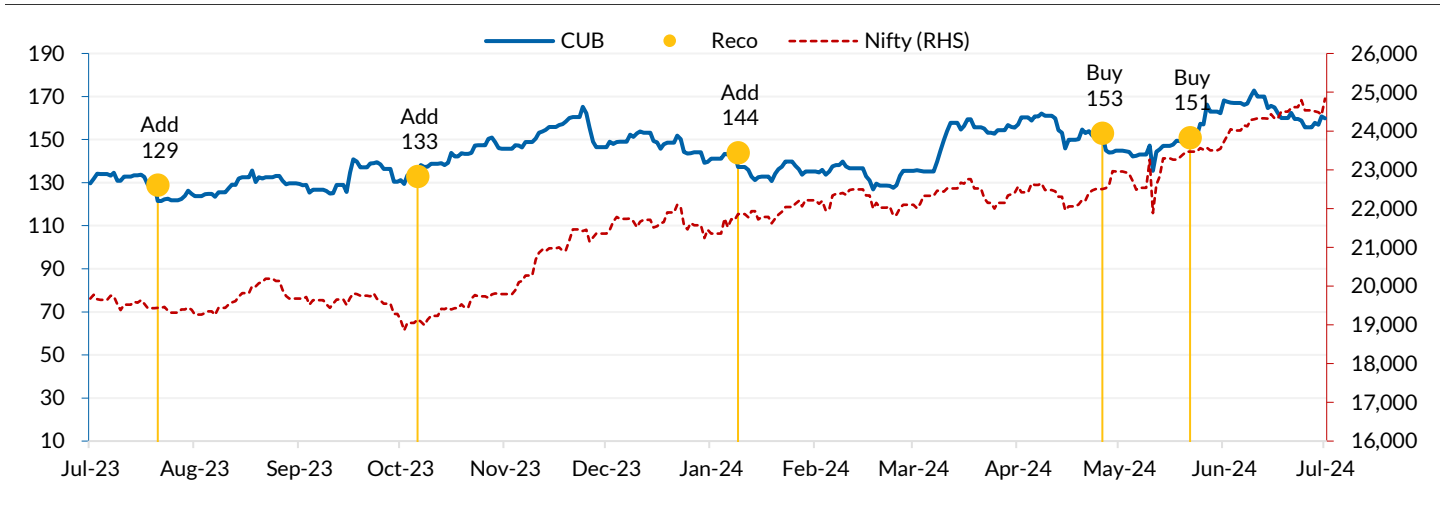
Source: Company, YES Sec – Research

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	4.7	12.9	-1.8	6.5	17.4
PPoP	8.7	14.0	-16.6	0.8	16.8
Net profit	28.2	23.3	8.3	-0.2	13.0
Loans	11.6	6.7	5.7	12.0	14.0
Deposits	7.1	9.9	6.2	11.8	13.8
Profitability Ratios (%)					
Net interest margin	4.0	3.9	3.7	3.6	3.7
Return on Average Equity	12.2	13.4	12.8	11.4	11.6
Return on Average Assets	1.3	1.5	1.5	1.4	1.4
Per share figures (Rs)					
EPS	10.3	12.7	13.7	13.7	15.5
BVPS	89	101	113	126	141
ABVPS	73	87	101	115	127
Valuation multiples					
P/E	16	12.6	11.7	11.7	10.3
P/BV	1.8	1.6	1.4	1.3	1.1
P/ABV	2.2	1.8	1.6	1.4	1.3
NIM internals (%)					
Yield on loans	9.0	9.1	9.4	9.4	9.4
Cost of deposits	4.6	4.6	5.4	5.5	5.3
Loan-deposit ratio	84.6	82.2	81.8	82.0	82.1
CASA ratio	32.6	29.9	30.6	31.0	31.0
Opex control (%)					
Cost/Income ratio	40.4	38.9	47.1	49.5	48.7
Cost to average assets	1.9	1.8	2.0	2.0	2.0
Capital adequacy (%)					
Tier 1 capital ratio	19.8	21.3	22.8	22.0	21.5
Asset quality (%)					
Slippage ratio	3.3	3.2	2.3	1.6	1.6
Gross NPL ratio	4.7	4.4	4.0	2.9	2.6
Credit cost	1.4	1.7	0.7	0.5	0.6
Net NPL ratio	3.0	2.4	2.0	1.7	1.7

Source: Company, YES Sec – Research

Recommendation Tracker



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