

City Union Bank (CITUNI)

₹ 43

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY12E)	Changed from ₹ 7.1 to ₹ 6.7
EPS (FY13E)	Changed from ₹ 8.4 to ₹ 8.2
RATING	Unchanged

Huge NPA accretion, w/off s come to rescue...

City Union Bank (CUB) reported a PAT of ₹ 72.2 crore in line with our estimate of ₹ 72.2 crore, thereby registering 25.2% YoY growth. However, the earnings quality was mediocre as NII growth was subdued (up 17.2% YoY to ₹ 122.8 crore) (I direct estimate: ₹ 127.7 crore). Lower tax provision of ₹ 7.1 crore (effective tax rate of mere 8.9%) on account of w/off of ~₹ 30 crore boosted profitability. Provisions excluding tax were high at ₹ 25.7 crore against our estimate of ₹ 12.3 crore as fresh slippages of ₹ 50 crore was there but net addition was managed at ₹ 4.4 crore only leading to GNPA of ₹129 crore.

Credit growth was in line with estimates at 29.5% YoY to ₹ 11027 crore while NIM dipped 17 bps QoQ to 3.2% in Q3FY12. Non-interest income posted robust growth of 39.7% YoY to ₹ 50.8 crore, primarily on account of high CEB income. We have reduced our NII estimates and revised PAT lower by ₹ 10 crore to ₹ 273 crore in FY12E (27.8% CAGR over FY11-13E).

■ Asset quality feels the pinch, NNPA up 28.3% QoQ to ₹ 56 crore...

GNPA saw fresh slippage of ~₹ 50 crore in Q3FY12 mainly from a garment player worth ~₹ 28 crore. However w/off s to the tune of ₹ 30 crore and recovery and upgrades were ₹ 15-20 crore leading to absolute GNPA remaining flat and ratio staying stable at 1.2%. Provisions were higher at ₹ 26 crore but NNPA ratio still inched up 9 bps QoQ to 0.5%. No fresh restructuring was made during Q3FY12.

■ NII estimates revised as falling CASA drags NIM down...

CASA ratio has steadily dropped from 19.6% in Q4FY11 to 16.8% in Q3FY12. In sync with CASA trend, NIM has plunged from 3.8% in Q4FY11 to 3.2% in Q3FY12. There may be interest income reversal on the fresh NPA but the quantum is still unknown. Hence, we have reduced our calculated NIM by 14 bps to 3.2% in FY12E and 9 bps in FY13E to 3.4%. NII estimates have been cut by ₹ 22 crore to ₹ 506.8 crore in FY12E & ₹ 17.5 crore to ₹ 662.5 crore in FY13E.

Valuation

At the CMP of ₹ 43, CUB is trading at 1.1x FY13E ABV. It has consistently posted excellent return ratios with RoA of >1.5% and RoE of >20% for the past 13 quarters. A rights issue of ₹ 400 crore is also expected. We maintain our target price of ₹ 52, valuing the bank at 1.4x FY13E ABV.

Exhibit 1: Financial Performance

₹ crore	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	122.8	127.7	104.7	120.2	17.2	2.1
Other Income	50.8	45.3	36.3	49.3	39.7	3.0
Total Income	173.6	173.1	141.1	169.5	23.0	2.4
PPP	104.9	104.7	90.0	101.5	16.6	3.3
PAT	72.2	72.1	57.7	77.5	25.2	-6.8

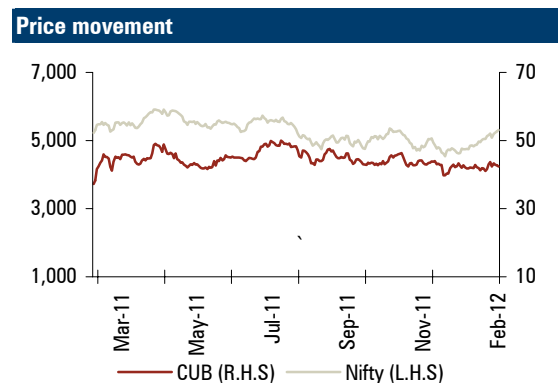
Source: Company Quarterly Presentation, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 52
Target Period	: 12 months
Potential Upside	: 21%

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
NII	278	420	507	663
PPP	256	361	421	529
PAT	153	215	273	351

Valuation summary				
	FY10	FY11	FY12E	FY13E
NP (₹ crore)	152.8	215.1	272.9	351.2
EPS (₹)	3.8	5.3	6.7	8.2
Growth (%)	0.2	38.9	26.9	21.5
P/E (x)	11.2	8.1	6.4	5.2
ABV (₹)	19.7	23.7	29.4	37.3
Price / Book (x)	2.1	1.7	1.4	1.1
P/ABV (x)	2.2	1.8	1.5	1.1
GNPA (%)	1.4	1.2	1.2	1.1
NNPA (%)	0.6	0.5	0.5	0.4
RoNA (%)	1.5	1.6	1.7	1.7
RoE (%)	20.6	23.5	24.3	24.2

Stock data	
Market Capitalisation	₹ 1712 crore
GNPA (Q3FY12)	₹ 124.8 crore
NNPA (Q3FY12)	₹ 43.7 crore
NIM (Q3FY12)	3.41%
52 week H/L	51/35
Equity capital	₹ 41 Crore
Face value	₹ 1
DII Holding (%)	7.2
FII Holding (%)	19.7



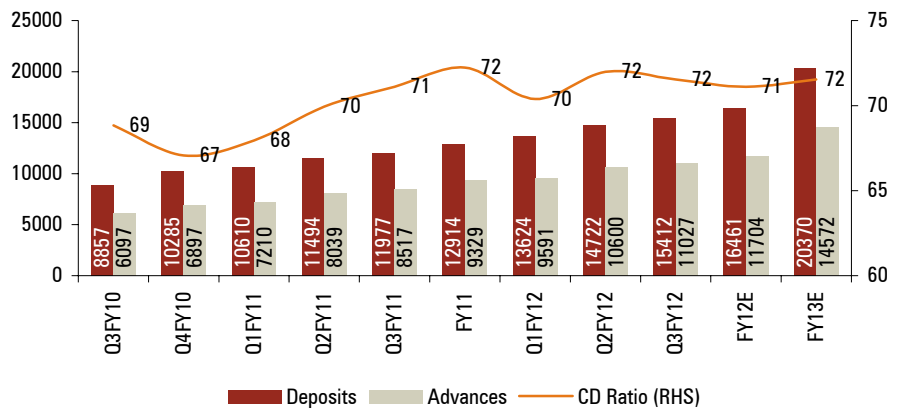
Analyst's name	
Kajal Gandhi	kajal.gandhi@icicisecurities.com
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Advances grew 29.5% YoY to ₹ 11207 crore while deposits rose 28.7% YoY to ₹ 15412 crore in Q2FY12

Only a couple of branch additions were made this quarter taking the tally to 286 branches in Q3FY12 with the aim of reaching 500 branches in three years. These branch additions would support business growth in future

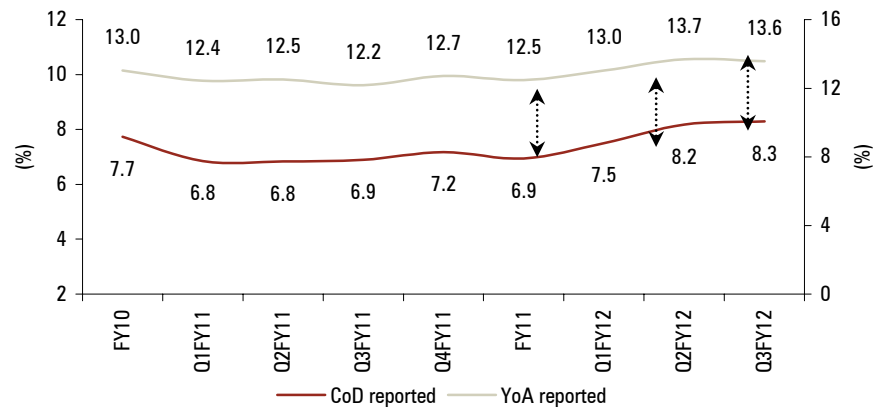
We expect credit to grow at a CAGR of 25.5% and deposit to grow at a CAGR of 25.6% over FY11-13E

Exhibit 2: Business expected to grow at 25.5% CAGR over FY11-13E...



Source: Company Quarterly Presentation, ICICIdirect.com Research

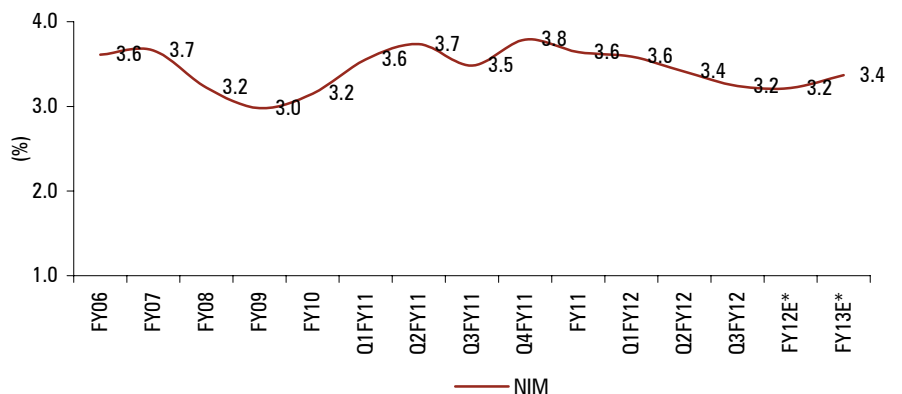
Exhibit 3: YoA takes 11 bps dip QoQ while CoD inches up 11 bps QoQ...



Source: Company Quarterly Presentation, ICICIdirect.com Research

The CASA ratio has steadily dropped from 19.6% in Q4FY11 to 16.8% in Q3FY12 pulling down the NIM. In line with the CASA trend, NIM has deteriorated from 3.8% in Q4FY11 to 3.2% in Q3FY12

Exhibit 4: NIM still maintained in 3 to 3.5% range..

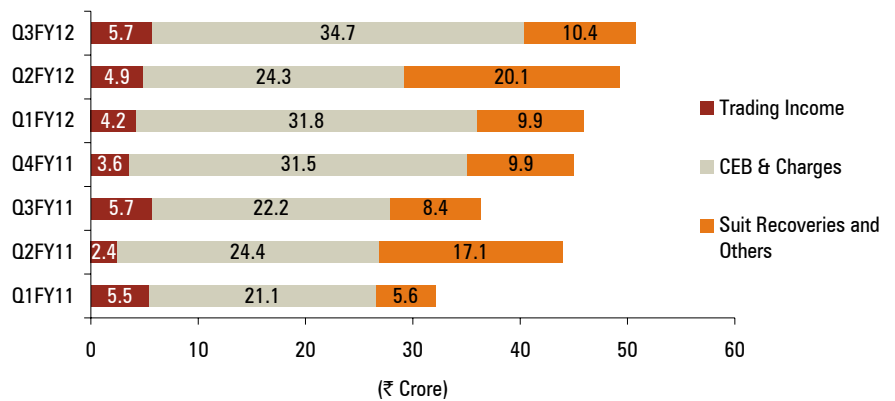


Source: Company Quarterly Presentation, ICICIdirect.com Research

*Calculated

Exhibit 5: Non-interest income registers strong growth on account of high CEB income...

CEB income witnessed robust 56.2% YoY and 42.8% QoQ growth to ₹ 34.7 crore



Source: Company Quarterly Presentation, ICICIdirect.com Research

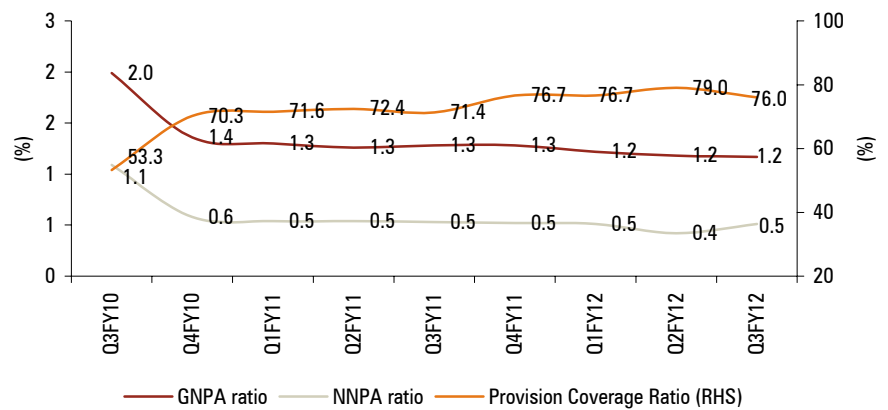
GNPA increased merely by ₹ 4.4 crore sequentially to ₹ 129.2 crore with the GNPA ratio stable at 1.2%. However, NNPA increased by ₹ 12.4 crore sequentially to ₹ 56.1 crore with the NNPA ratio rising 0.1% to 0.5%

PCR dropped 301 bps QoQ to 76%

The bank's asset quality is otherwise stable with the unsecured portfolio constituting merely 2% of total advances. We estimate GNPA ratio at 1.1% and NNPA ratio at 0.4% by FY13E

No fresh restructuring was done in Q3FY12 as the outstanding restructured book stood at ₹ 276.9 crore, constituting 2.5% of the credit book

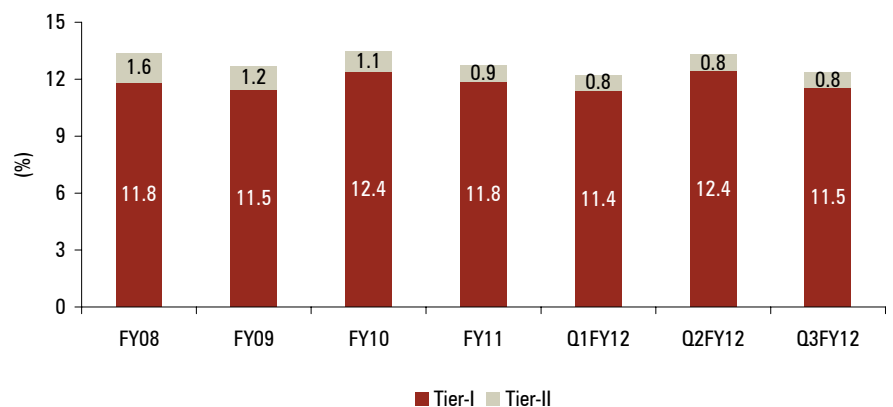
Exhibit 6: Initial signs of stress on asset quality seen as NNPA ratio inches up...



Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 7: Rights issue of ₹ 400 crore expected, no t fully factored in estimates ...

The capital adequacy ratio is healthy at 12.35% with the Tier-I ratio constituting a healthy 11.5%. Adequate capital provides comfort that the bank can raise capital when market conditions are conducive



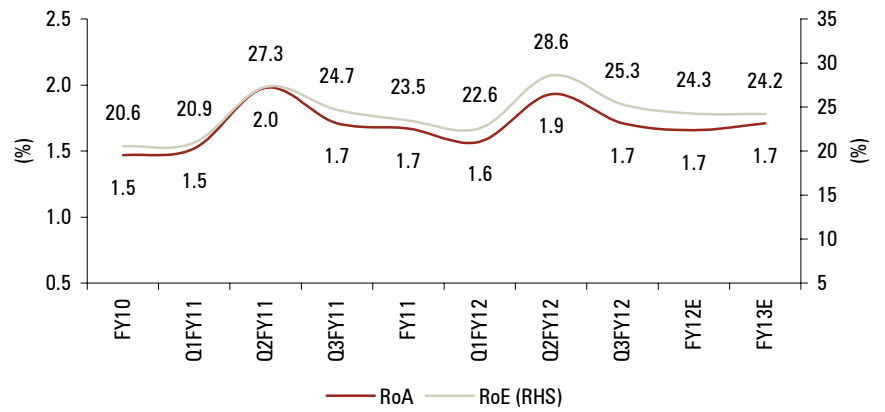
Source: Company Quarterly Presentation, ICICIdirect.com Research

The bank plans to raise ₹ 400 crore capital through a rights issue for which Sebi approval is still awaited. The bank is on track to achieve its ₹ 3000 crore net worth to achieve growth of 25-27% till FY14E. The bank has achieved a net worth of ₹ 1000 crore in FY11 while it aims to add another ₹ 1000 crore via PAT growth by FY14E. For the remaining ₹ 1000 crore, it will need to raise external capital.

Exhibit 8: Return ratios consistently strong...

The bank posted excellent return ratios for Q3FY12 with RoA at 1.7% and RoE at 25.3%. It has been consistently delivering highly superior return ratios for the past few quarters

We expect the bank to maintain its momentum and estimate RoA at 1.7% and RoE at 24.2% for FY13E



Source: Company Quarterly Presentation, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Interest Earned	956.6	1218.4	1573.5	1980.3
Interest Expended	678.5	798.4	1066.7	1317.8
Net Interest Income	278.1	420.0	506.8	662.5
growth (%)	14.7	51.0	20.7	30.7
Non Interest Income	143.5	157.4	186.5	210.6
Net Income	421.6	577.4	693.3	873.1
Staff cost	80.1	101.6	135.0	179.5
Other Operating expense	85.7	114.8	137.3	164.8
Operating profit	255.8	361.0	421.0	528.8
Provisions	60.5	79.0	66.6	72.7
Taxes	42.5	67.0	81.5	104.9
Net Profit	152.8	215.1	272.9	351.2
growth (%)	25.1	40.8	26.9	28.7
EPS (₹)	10.2	12.4	14.5	17.2

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Valuation				
No. of Equity Shares	40.0	40.5	40.5	42.9
EPS (Rs.)	3.8	5.3	6.7	8.2
BV (Rs.)	20.7	24.9	30.7	38.7
ABV (Rs.)	19.7	23.7	29.4	37.3
P/E	11.2	8.1	6.4	5.2
P/BV	2.1	1.7	1.4	1.1
P/ABV	2.2	1.8	1.5	1.1
Yields & Margins (%)				
Net Interest Margins	2.8	3.4	3.2	3.4
Yield on assets	9.7	9.8	10.0	10.1
Avg. cost on funds	7.3	6.8	7.2	7.1
Yield on average advances	12.1	12.0	12.3	12.4
Avg. Cost of Deposits	7.3	6.7	7.1	7.1
Quality and Efficiency (%)				
Cost to income ratio	39.3	37.5	39.3	39.4
Credit/Deposit ratio	66.4	71.7	71.1	71.5
GNPA	1.4	1.2	1.2	1.1
NNPA	0.6	0.5	0.5	0.4
ROE	20.6	23.5	24.3	24.2
ROA	1.5	1.6	1.7	1.7

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Capital	40.0	40.5	40.5	42.9
Reserves and Surplus	785.7	966.1	1203.5	1614.6
Networth	825.6	1006.6	1244.0	1657.5
Deposits	10284.6	12914.3	16461.1	20370.1
Borrowings	40.1	186.2	127.7	127.7
Other Liabilities & Provisions	409.2	484.5	508.7	542.8
Total	11559.4	14591.5	18341.5	22698.1
Applications of Funds				
Fixed Assets	63.0	68.5	74.9	80.1
Investments	3210.4	3616.2	4545.8	5666.9
Advances	6833.5	9255.5	11704.0	14571.6
Other Assets	352.3	365.0	460.5	543.0
Cash with RBI & call money	1100.2	1286.3	1556.3	1836.5
Total	11559.4	14591.5	18341.5	22698.1

Source: Company, ICICIdirect.com Research

Growth ratios

	(% growth)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total assets	25.0	26.2	25.7	23.8
Advances	21.0	35.4	26.5	24.5
Deposit	25.3	25.6	27.5	23.7
Total Income	18.5	25.1	27.9	24.5
Net interest income	14.7	51.0	20.7	30.7
Operating expenses	18.9	30.5	25.8	26.5
Operating profit	12.8	41.1	16.6	25.6
Net profit	25.1	40.8	26.9	28.7
Net worth	24.9	21.9	23.6	33.2
EPS	0.2	38.9	26.9	21.5

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Public Sector Banks

Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	350	FY11	2488.7	45.5	7.7	1.4	0.8	15.8
		Target	331	FY12E	2364.1	43.2	8.1	1.4	0.6	13.0
Mcap (₹ Cr)	18404	Upside (%)	-5.4	FY13E	3436.4	62.8	5.6	1.2	0.8	17.3
Bank of Baroda										
Idirect Code	BANBAR	CMP	755	FY11	4241.7	108.0	7.0	1.6	1.3	23.5
		Target	954	FY12E	4776.2	121.6	6.2	1.3	1.2	20.8
Mcap (₹ Cr)	27601	Upside (%)	26.3	FY13E	5681.3	144.6	5.2	1.1	1.2	20.7
Dena Bank										
Idirect Code	DENBAN	CMP	71	FY11	611.6	21.3	3.4	0.8	1.0	21.2
		Target	84	FY12E	726.4	25.3	2.8	0.7	0.9	18.6
Mcap (₹ Cr)	2382	Upside (%)	17.6	FY13E	847.3	29.5	2.4	0.6	0.9	18.7
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	87	FY11	1072.5	17.3	5.0	0.8	0.7	14.8
		Target	94	FY12E	818.9	11.7	7.4	0.8	0.4	9.2
Mcap (₹ Cr)	4742	Upside (%)	8.0	FY13E	1101.7	15.8	5.5	0.7	0.5	11.1
IDBI Bank										
Idirect Code	IDBI	CMP	97	FY11	1650.3	18.4	5.3	1.1	0.7	15.8
		Target	UR	FY12E	1627.6	16.5	5.9	1.1	0.6	12.3
Mcap (₹ Cr)	9590	Upside (%)	-	FY13E	1968.5	20.0	4.9	0.9	0.6	13.4
OBC										
Idirect Code	ORIBAN	CMP	281	FY11	1502.9	45.3	6.2	0.9	1.0	17.9
		Target	310	FY12E	1111.5	51.5	5.5	0.9	0.6	9.7
Mcap (₹ Cr)	8193	Upside (%)	10.4	FY13E	1506.5	38.1	7.4	0.8	0.7	12.1
Punjab National Bank										
Idirect Code	PUNBAN	CMP	953	FY11	4433.5	124.9	7.6	1.7	1.3	22.6
		Target	970	FY12E	4630.6	146.2	6.5	1.5	1.1	19.8
Mcap (₹ Cr)	30186	Upside (%)	1.8	FY13E	5769.1	182.1	5.2	1.2	1.2	20.8
SBI										
Idirect Code	STABAN	CMP	2073	FY11	82.7	130.2	15.9	2.5	0.7	12.6
		Target	2200	FY12E	96.2	144.6	14.3	2.2	0.7	13.5
Mcap (₹ Bn)	131610	Upside (%)	6.1	FY13E	129.4	187.6	11.1	1.8	0.8	15.1
Syndicate Bank										
Idirect Code	SYNBAN	CMP	99	FY11	1047.9	18.3	5.4	1.0	0.7	16.5
		Target	111	FY12E	1277.2	22.3	4.4	0.9	0.8	17.0
Mcap (₹ Cr)	5681	Upside (%)	12.0	FY13E	1612.3	28.1	3.5	0.8	0.8	19.3
Union Bank of India										
Idirect Code	UNIBAN	CMP	234	FY11	2081.9	39.7	5.9	1.3	1.0	20.9
		Target	213	FY12E	1617.5	30.8	7.6	1.3	0.6	13.8
Mcap (₹ Cr)	12282	Upside (%)	-9.1	FY13E	2158.7	41.2	5.7	1.1	0.7	16.4
Private Sector Banks										
Axis Bank										
Idirect Code	UTIBAN	CMP	1076	FY11	3388.5	83.0	13.0	2.4	1.7	20.1
		Target	1274	FY12E	4042.4	98.5	10.9	2.0	1.5	19.5
Mcap (₹ Cr)	44171	Upside (%)	18.4	FY13E	5092.8	124.0	8.7	1.7	1.6	20.7
City Union Bank										
Idirect Code	CITUNI	CMP	43	FY11	215.1	5.3	8.1	1.8	1.6	23.5
		Target	52	FY12E	272.9	6.7	6.4	1.5	1.7	24.3
Mcap (₹ Cr)	1712	Upside (%)	21.5	FY13E	351.2	8.2	5.2	1.1	1.7	24.2
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	57	FY11	26.0	3.3	17.3	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	22.9	0.6	0.2	3.0
Mcap (₹ Cr)	488	Upside (%)	-	FY13E	48.9	4.1	14.1	0.6	0.2	4.1
DCB										
Idirect Code	DCB	CMP	44	FY11	21.4	1.1	40.7	1.7	0.3	3.9
		Target	60	FY12E	51.1	2.6	17.1	1.5	0.6	8.7
Mcap (₹ Cr)	872	Upside (%)	37.8	FY13E	63.6	2.6	16.5	1.2	0.7	8.2
Federal Bank										
Idirect Code	FEDBAN	CMP	400	FY11	587.1	34.3	11.7	1.4	1.5	13.5
		Target	472	FY12E	741.8	43.4	9.2	1.4	1.3	14.2
Mcap (₹ Cr)	6838	Upside (%)	18.0	FY13E	832.9	48.7	8.2	1.3	1.2	15.1

Continued...

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
HDFC Bank										
Idirect Code	HDFBAN	CMP	498	FY11	3926.4	16.9	29.5	4.6	1.6	16.7
		Target	532	FY12E	5074.3	21.8	22.8	4.1	1.7	18.7
Mcap (₹ Cr)	115708	Upside (%)	6.8	FY13E	6560.0	28.2	17.7	3.6	1.8	21.2
Kotak Bank										
Idirect Code	KOTMAH	CMP	511	FY11	818.3	11.1	43.8	5.4	1.9	14.5
		Target	436	FY12E	1037.8	14.1	34.5	4.8	1.9	14.3
Mcap (₹ Cr)	37658	Upside (%)	-14.7	FY13E	1315.9	17.9	27.2	4.2	2.0	15.8
South Indian Bank										
Idirect Code	SOUINO	CMP	23	FY11	292.6	2.6	8.9	1.6	1.0	18.5
		Target	26	FY12E	381.2	3.4	6.8	1.3	1.0	20.6
Mcap (₹ Cr)	2599	Upside (%)	13.0	FY13E	468.9	3.2	7.3	1.0	1.0	17.6
Yes Bank										
Idirect Code	YESBAN	CMP	339	FY11	727.1	20.9	16.2	3.1	1.5	21.1
		Target	369	FY12E	970.5	26.6	12.7	2.4	1.5	21.6
Mcap (₹ Cr)	11768	Upside (%)	8.8	FY13E	1281.7	33.5	10.1	1.9	1.6	21.1

*UR: Under Review

Exhibit 9: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
5-Aug-11	Q1FY12 Result Update	47	52	Buy
23-Sep-11	Banking Industry Vol VI	45	52	Buy
5-Oct-11	Q2FY12 Result Preview	43	52	Buy
9-Nov-11	Q2FY12 Result Update	46	52	Buy
16-Dec-11	Banking Industry Vol VII	43	52	Buy
6-Jan-12	Q3FY12 Result Preview	42	52	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Buy: > 10%/ 15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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