

Industry	Financial
Bloomberg	CUBK IN
BSE CODE	532210

Improvement in Assets Quality and Stable NIM Likely to Result in Steady Profitability Growth.

RATING	ACCUMULATE
CMP	191
Price Target	214
Potential Upside	12%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	207/134
Mkt Capital (Rs Cr)	13,953
Free float (%)	100%
Avg. Vol 1M (000)	884
No. of Shares (Cr)	73
Promoters Pledged %	0%

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3Q FY19 Result Update-

- ❑ CUB's NII and PAT both were in line with our expectation. PAT grew at slower pace of 15% YoY due to higher opex and decline in other income. NII growth improved during the quarter at 15% YoY. NIM stood at 4.41% v/s 4.32% in Q2FY19.
- ❑ C/I ratio increased by 385 bps to 43% on YoY basis due to lower other income. Other income declined by 2% YoY due to lower treasury gain. Fee income grew at 16% YoY.
- ❑ Loan growth of 18%/3% YoY/QoQ was mainly from the retail (+ 26%/5% YoY/QoQ) and SME (+16%/2% YoY/QoQ) segments. About 18-20% credit growth is expected in Q4FY19. Deposits grew at 13%/3% YoY/QoQ mainly driven by the robust growth of 25%/8% YoY/QoQ in saving accounts.
- ❑ Slippages during the quarter increased by 22% QoQ to Rs 166 Cr led by one paper account of total exposure of Rs 85 Cr, which slipped into NPA during the quarter for which the bank has done 15% provision till now. Management expects slippages ratio to restrict in the range of 1.75%-2% going forward.
- ❑ The Bank has no Direct / Indirect exposures to IL&FS. Infrastructure sector exposure increased by 60% to Rs 287 Cr due to 2-3 solar related exposure which has given to the existing customers.

View and Valuation

Assets quality has remained stable despite the concern over MSME due to GST transitions reflecting healthy credit underwriting practice. Management is hopeful to maintain slippages guidance of 1.75-2% in FY19. We expect credit cost to remain under control going ahead. NIM of the bank is continuously on the improving trend due to its focus towards the segments like trading and MSME, which has higher yield and constitute about 51% of the book. Recently the cost of fund is on rising trend for the industry but management has been able to pass on the cost burden to customers. However, management continues to guide conservative NIM and expect some pressure going ahead. Loan book is expected to grow at steady rate of 18-20% going ahead due to gaining its share from NBFC's which is currently facing liquidity issues. We largely maintain our PAT estimates. CUB is currently trading at 2.5x BVPS FY20e. We recommend ACCUMULATE for the target price of Rs 214.

Key Risks to our rating and target

- ❑ Management's ability to pass on the cost to protect NIM
- ❑ Significant deterioration in assets quality will impact earnings.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	981	1199	1430	1628	2005
PPP	833	994	1208	1235	1558
PAT	445	503	592	687	848
NIM %	3.5	3.8	4.0	4.0	4.2
EPS (Rs)	6	7	8	9	12
EPS growth (%)	13	13	17	15	23
ROE (%)	15.5	15.2	15.3	15.3	16.3
ROA (%)	1.5	1.5	1.6	1.6	1.7
BV	42	49	57	66	77
P/B (X)	1.9	2.5	2.7	2.9	2.5
P/E (x)	12.7	17.9	19.2	20.3	16.5

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3Q FY19 Results In-line with expectation

NIM expands

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	865	871	890	926	967	11.7%	4.3%	3,174	3,402	7.2%
Interest Exp.	500	503	515	528	549	9.7%	3.8%	1,975	1,972	-0.1%
NII	365	368	375	398	418	14.5%	5.0%	1,199	1,430	19.3%
Other Income	122	120	129	119	120	-1.5%	1.1%	484	532	10.0%
Total Income	487	488	504	517	538	10.5%	4.1%	1,683	1,962	16.6%
Opex Exp.	190	193	204	221	231	21.4%	4.7%	689	755	9.5%
PPP	296	294	299	296	307	3.5%	3.7%	994	1,208	21.5%
Provisions	86	86	78	68	79	-8.1%	15.9%	301	418	38.8%
PBT	211	208	222	228	228	8.2%	0.1%	693	790	14.0%
Tax	56	56	60	60	50	-11%	-16.7%	190	198	4%
Net Profit	155	152	162	168	178	15.1%	6.0%	503	592	18%

NIM on improving trend.

NIM improved by 9 bps sequentially due to increase in yield, but remained stable at 4.41% on YoY basis. Yield on advances increased by 10 bps QoQ due to focus towards high yield assets and rising MCLR rates. Yield on funds increased by 19 bps and yield on investment increased by 2 bps on QoQ basis. Cost of deposits increased by 10 bps and cost of fund increased by 8 bps on QoQ. We expect NIM to continue on the improving trend due to its focus towards high yield assets and rising MCLR rates.

C/I ratio jumped by 385 bps to 43% YoY, due to increase in the operating expenses by 21% YoY and lower growth in total net income by only 11% YoY. Employee expenses grew by 16% YoY and other operating expenses grew by 25% YoY. The bank has added 9 branches and 21 ATM's during the quarter. Employee addition was increased by 37 to 5443 in Q3FY19. Due to lesser treasury gain management expects C/I ratio to remain elevated till the end of FY19. Overall in long term horizon management expect C/I ratio to be in the range of 42-45%.

Advances growth at healthy level but deposits remained moderated.

Advances grew by 18%/3% on YoY/QoQ led by 26% growth in retail and 16% growth in MSME segment. Corporate advances growth moderated to 13% YoY. Loan to Retail traders/Agriculture grew at 27%/27% on YoY basis. NBFC loan growth declined by 14% YoY as against 6% a quarter back. MSME book share was stable at 34% and trader's book share also remained stable at 17%. Large industry book share was declined to 6.6% vs 7.3% in FY17. Other personal loan share continues to inch up at 4.8% as against 3% in FY17. This segment grew by 60% YoY.

Deposits growth picked up to 13% YoY, which is highest in last 6 quarters but the growth remained moderated in comparison to advances growth and hence stretching CD ratio to 85% against 82% a year back. CASA grew at 21% YoY, saving account grew robustly by 25% YoY, which is highest in last 7 quarters. Current deposits grew by 12% YoY.

Stable were elevated during the quarter.

Slippage during the quarter has increased by 22% QoQ to Rs 166 Cr. The bank has maintained its asset quality well over a long time by giving small ticket secured loans. The GNPA ratio increased by 6 bps at 2.91%, whereas NNPA ratio increased by 5 bps at 1.74%. The amount outstanding in security receipts (SR) stood at Rs 327 Cr and total provisioning done towards it is Rs 151 Cr. Technical write-off during the quarter stood at Rs 60 Cr. Provision coverage ratio increased to 65% as against 62% a quarter back.

Other highlights:

The bank has provided full provision for the cyber-attack amounting to Rs 42 Cr, out of which 3 Cr was received back and Rs 37 Cr was already provided and remaining Rs 2 Cr has been provided during the quarter. Management does not expect additional provision to impact earnings going forward.

CAR ratio stood at 14.8% as against 15.1% a quarter back. Tier I ratio stood at 14.4%.

Other income declined by 2% YoY to Rs 120 Cr, led by the decline in treasury income by 40% YoY.

Concall Highlights

- ❑ NIM improved by 9 bps to 4.41% during the quarter but management is cautious that the entire cost will be fully passed to borrowers going forward.
- ❑ C/I ratio increased to 43% v/s 39% a year back due to the non availability of other income.
- ❑ Advances grew by 18% YoY mainly driven by retail and MSME segment. Management expects 18-20% credit growth for FY18-19.
- ❑ Total agriculture loan for Jewel loan is Rs 2476 Cr, out of total agriculture loan of Rs 4515 Cr.
- ❑ Saving account grew robust at 25% YoY, but management guided to follow the past trend going forward.
- ❑ Slippages during the quarter increased by 22% QoQ to Rs 166 Cr led by one paper account of total exposure of Rs 85 Cr, which slipped into NPA during the quarter and the bank has made 15% provision on it and the management don't expect revival to come from the release of PSU banks. The bank may infuse capital to make the unit run in FY20 and the management also does not expect any haircut on the recovery. Management expects slippages ratio to restrict in the range of 1.75%-2% going forward.
- ❑ The bank has not restructured any assets during the quarter and also has no request for restructuring from the clients.
- ❑ The bank has not sold any asset to ARC in the previous two years. Security Receipt amounted to Rs 327 Cr during the quarter for which the bank has provided Rs 16 Cr as of now and as at Q3FY19 total outstanding provision towards SR is Rs 151 Cr.
- ❑ The Bank has no Direct / Indirect exposures to ILFS.
- ❑ The bank has provided full provision for the cyber attack amounting to Rs 42 Cr, out of which 3 Cr was received back and Rs 37 Cr was already provided and remaining Rs 2 Cr has been provided during the quarter. Management dose not expect additional provision to impact earnings going forward.
- ❑ With the expected collection recovery through liquidation of collateral and decline in slippages ratio management expect asset quality to improve going forward.
- ❑ PSLC was 3.63% during the quarter.
- ❑ Infrastructure sector exposure increased by 60% to Rs 287 Cr due to 2-3 solar related exposure which has given to the existing customers.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	37.8	37.3	39.1	39.7	40.6	42.7	43.0	3.85	0.25
Empl. Cost/ Tot. Exp. %	42.3	43.5	42.0	39.7	42.7	42.2	40.1	-1.82	-2.02
Other Exp/Tot. Exp.%	57.7	56.5	58.0	60.3	57.3	57.8	59.9	1.82	2.02
Provision/PPP %	39.3	40.4	28.9	29.3	26.0	23.0	25.7	-3.23	2.70
Tax Rate %	22.2	24.1	26.6	26.9	27.1	26.3	21.9	-4.65	-4.40
Int Exp./Int Inc. (%)	58.5	57.8	57.8	57.7	57.9	57.0	56.7	-1.06	-0.29
Other Inc./Net Inc. %	28.3	30.4	25.0	24.6	25.6	22.9	22.3	-2.72	-0.67
PAT/ Net Income %	29.4	28.4	31.8	31.2	32.1	32.5	33.1	1.31	0.59
PAT Growth %	13.6	17.0	22.2	18.0	15.2	16.0	15.1	-7.19	-0.99
NII Growth %	22.3	17.8	18.9	18.5	9.5	12.2	14.5	-4.44	2.34
Op. Profit	26.0	35.2	8.4	18.8	0.8	(7.5)	3.5	-4.85	11.04
RoE %	15.5	15.2	15.7	15.2	15.3	15.2	15.6	-0.09	0.41
RoA %	1.6	1.6	1.6	1.6	1.6	1.6	1.7	0.04	0.06

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on	11.8	11.5	11.4	11.2	10.9	10.9	11.0	-0.41	0.10
Global Yield on	6.9	7.0	6.9	6.9	6.9	7.0	7.0	0.03	0.02
Yield on Total	9.4	9.2	9.2	9.1	9.0	8.9	9.1	-0.06	0.19
Cost of Deposits	6.4	6.3	6.2	6.2	6.2	6.1	6.2	-0.07	0.10
Cost Of Funds	5.5	5.3	5.3	5.2	5.2	5.1	5.2	-0.13	0.08
NIM	4.5	4.5	4.4	4.4	4.2	4.3	4.4	0.00	0.09

Exhibit: Yield and Cost

Both yield and cost of fund increased.

■ Yield on Total Assets % ■ Cost of Deposits %

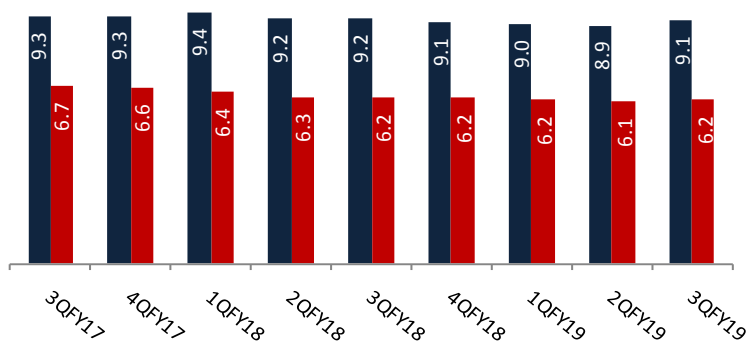
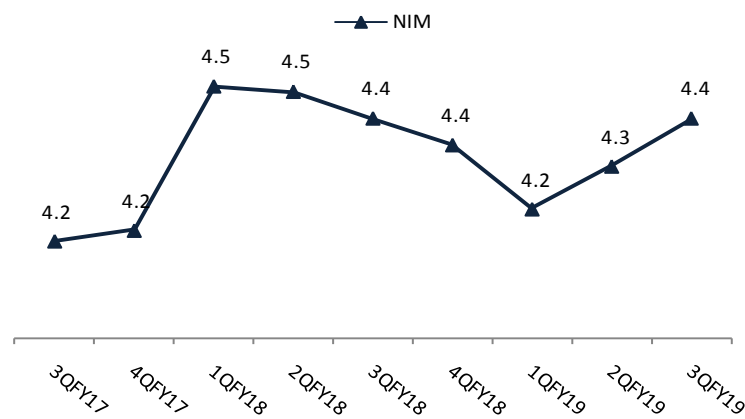


Exhibit: Net Interest Margin

NIM on improving trend.



Other Income Break Up-

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Commission, Exchange, BroI	52	58	70	57	61	68	76	69	71
Total Fee-Based Income	52	58	70	57	61	68	76	69	71
Growth YoY %	5	8	27	10	17	17	9	20	16
Treasury Income	79	36	39	65	34	30	19	21	21
Other Inc incl recoveries in v	11	32	27	33	26	22	34	28	28
Other Income	143	126	135	155	122	120	129	119	120
Growth YoY %	38	17	22	49	-15	-5	-5	-24	-2

Exhibit: Fee Income/Advances %

Fee income as a % of total advances remained stable.

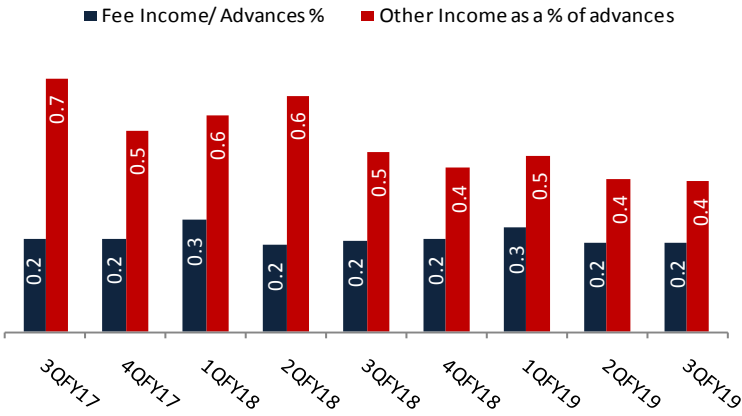
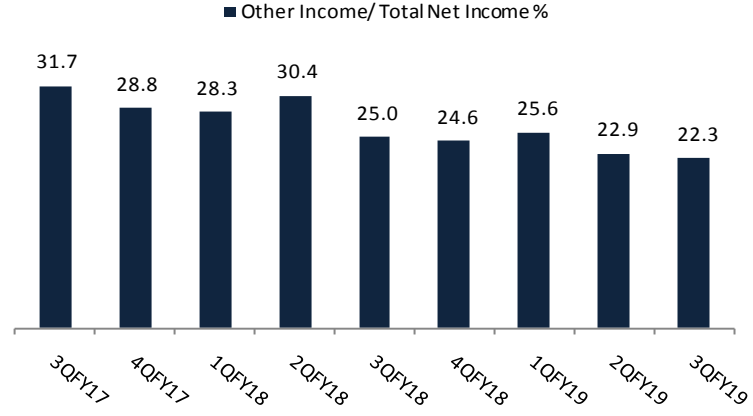


Exhibit: Other Income/ Total Income %

Growth in other income moved down.



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	735	780	860	857	851	848	892	4%	5%
GNPA %	3.1	3.1	3.3	3.0	3.0	2.9	2.9	-0.39	0.06
NNPA (Rs in Cr)	426	441	448	475	474	498	528	18%	6%
NNPA %	1.8	1.8	1.7	1.7	1.7	1.7	1.7	0.00	0.05
Slippages (Rs in Cr)	148	147	132	148	126	136	166	25%	22%
PCR %	62.0	63.0	65.0	64.0	65.0	61.8	65.0	0.00	3.20

Exhibit: Asset Quality

Assets quality was impacted.

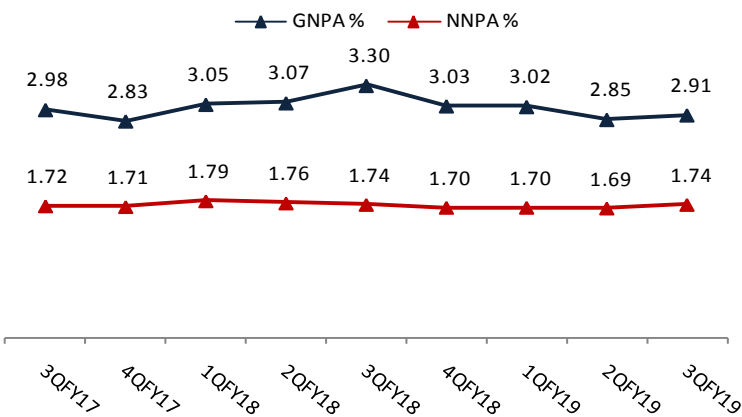


Exhibit: Provisions

PCR increased.

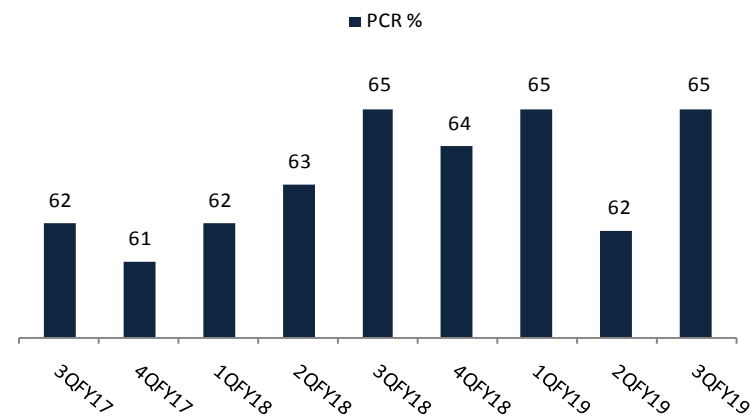


Exhibit: Advances Performance

Advances growth increased.

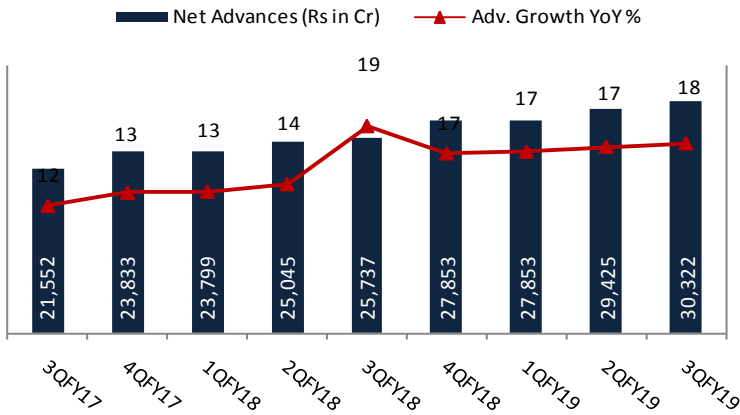


Exhibit: Advances Breakup%

Portfolio has slightly tilted towards retail profile.

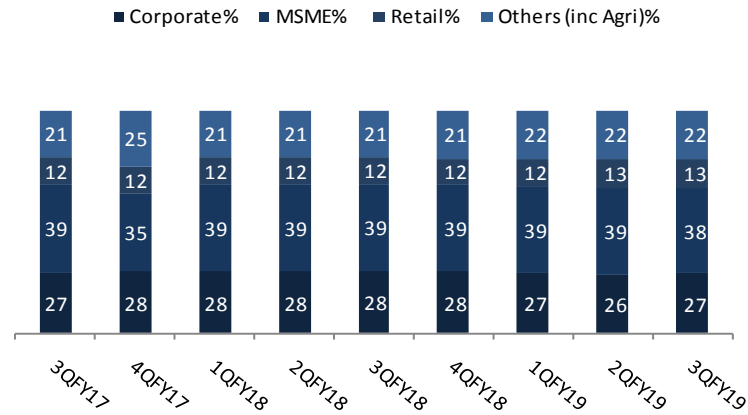


Exhibit: Deposits Performance

Deposits growth improved.

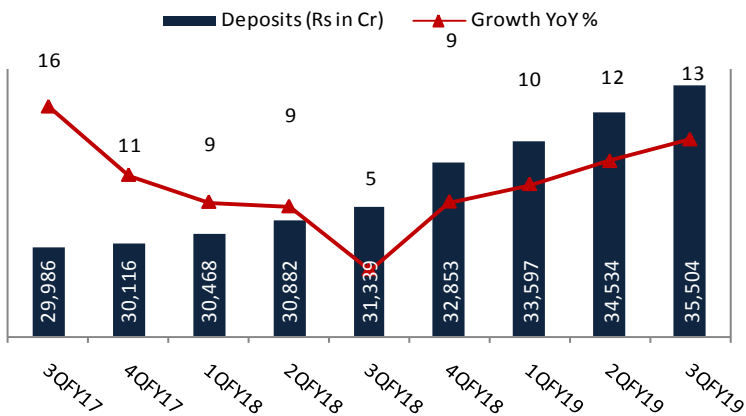


Exhibit: CASA Performance

CASA level on improving trend.

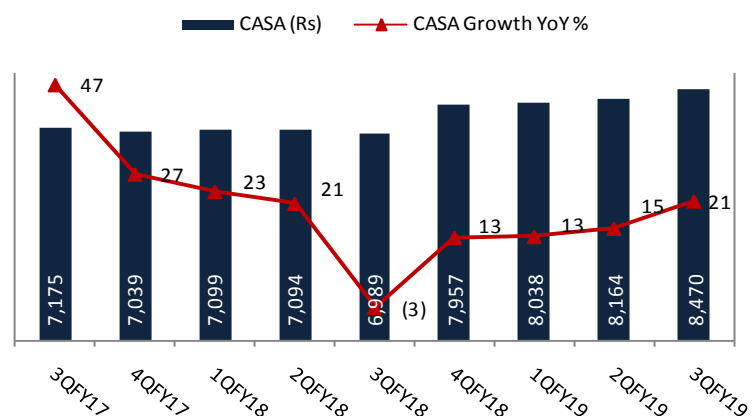


Exhibit: Credit Deposit Ratio

CD ratio remained stable.

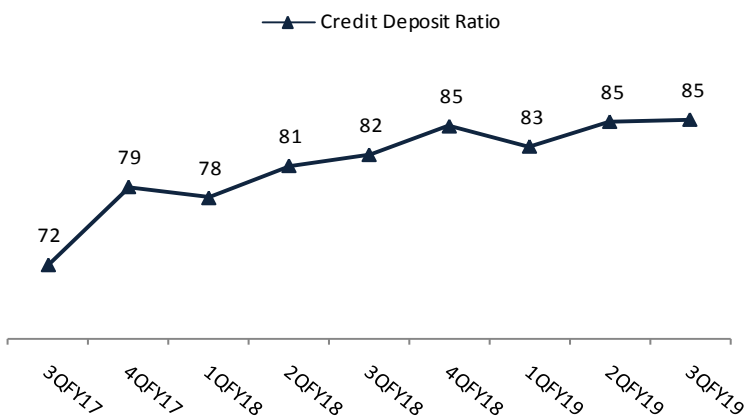
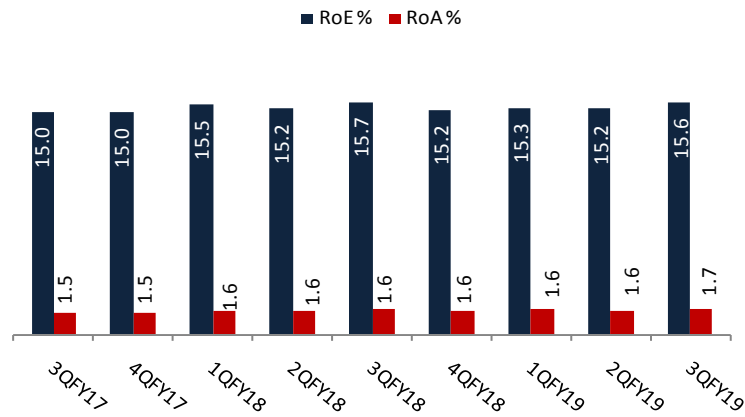


Exhibit: Return Ratios.

Return ratios improved.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	47	54	60	60	60	66	73	73
>> Equity Capital	47	54	60	60	60	66	73	73
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1593	1971	2636	2992	3510	4097	4740	5535
Networth	1641	2025	2696	3052	3570	4163	4813	5608
Deposits	20305	22017	24075	27158	30116	32853	38666	46169
Change (%)	24.3	8.4	9.3	12.8	10.9	9.1	17.7	19.4
>> CASA Deposits	3405	3917	4631	5533	7039	7957	9280	11542
Change (%)	14.6	15.1	18.2	19.5	27.2	13.0	16.6	24.4
Borrowings	477	305	169	664	531	1736	1879	1995
Other Liabilities & Prov.	555	647	932	929	1054	1186	1381	1649
Total Liabilities	22977	24994	27871	31804	35271	39937	46739	55421
Cash & Bank	1770	2180	2537	2650	2879	2636	3463	4055
Investments	5267	5954	6365	6826	7031	7879	8742	10893
Change (%)	14.8	13.0	6.9	7.2	3.0	12.1	11.0	24.6
Advances	15246	16097	17966	21057	23833	27853	32866	38782
Change (%)	25.6	5.6	11.6	17.2	13.2	16.9	18.0	18.0
Fixed Assets	141	183	210	218	215	223	230	237
Other Assets	552	581	793	1053	1313	1346	1438	1454
Total Assets	22977	24994	27871	31804	35271	39937	46739	55421

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	2189	2546	2699	2944	3174	3402	3802	4609
Interest expended	1565	1787	1891	1963	1975	1972	2174	2605
Net Interest Income	624	759	807	981	1199	1430	1628	2005
Change (%)	24.9	21.7	6.3	21.5	22.2	19.3	13.8	23.2
Other Income	274	301	404	410	484	532	499	558
Change (%)	32.1	10.1	34.2	1.5	18.0	10.0	-6.2	11.8
>> Core Fee Income	173	174	197	211	218	256	295	327
>> Treasury Income	35	56	129	126	206	168	89	131
>> Others	66	71	78	73	61	108	115	100
Total Net Income	898	1061	1211	1391	1683	1962	2127	2562
Operating Expenses	374	480	519	558	689	755	892	1005
Change (%)	33.7	28.2	8.2	7.5	23.5	9.5	18.2	12.6
>> Employee Expenses	151	186	210	213	298	316	367	406
Pre-provisioning Profit	523	581	693	833	994	1208	1235	1558
Change (%)	22.6	11.0	19.2	20.3	19.3	21.5	2.2	26.2
Provisions	120	167	183	231	301	418	311	396
Change (%)	43.7	39.0	9.0	26.3	30.5	38.8	-25.5	27.2
PBT	403	414	521	603	693	790	923	1162
Tax	81	67	126	158	190	198	236	314
Profit After Tax	322	347	395	445	503	592	687	848
Change (%)	14.9	7.8	13.8	12.6	13.1	17.7	16.0	23.4

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	26	6	12	17	13	17	18	18
Deposit Growth (%)	24	8	9	13	11	9	18	19
C/D Ratio (%)	75.1	73.1	74.6	77.5	79.1	84.8	85.0	84.0
CASA (%)	16.8	17.8	19.2	20.4	23.4	24.2	24.0	25.0
Investment/Deposit (%)	25.9	27.0	26.4	25.1	23.3	24.0	22.6	23.6
CRAR (%)	14.0	15.0	16.5	15.6	15.8	16.2	16.1	15.8
>> Tier 1 (%)	13.3	14.4	16.0	15.1	15.4	15.8	15.7	15.4
>> Tier 2 (%)	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.4

Assets Quality Metrics

Gross NPA (Rs)	173	293	336	512	682	857	942	1,144
Gross NPA (%)	1.1	1.8	1.9	2.4	2.8	3.0	2.8	2.9
Net NPA(Rs)	96	197	233	323	408	475	537	606
Net NPA (%)	0.6	1.2	1.3	1.5	1.7	1.7	1.6	1.6
Slippages (%)	2	3	4	2	2	2	2	2
Provision Coverage (%)	71	62	58	60	61	64	68	75
Provision/Average Advances (%)	0.9	1.1	1.1	1.2	1.3	1.6	1.0	1.1

Margin Metrics

Yield On Advances (%)	13.2	13.3	12.7	12.1	11.5	11.0	10.5	10.8
Yield On Investment (%)	7.6	7.8	8.4	8.2	7.8	7.0	6.8	7.1
Yield on Earning Assets (%)	11.2	11.3	10.8	10.5	10.0	9.6	9.3	9.6
Cost Of Deposits (%)	8.2	8.2	8.0	7.5	6.8	6.1	5.9	6.0
Cost Of Funds (%)	8.3	8.2	8.0	7.5	6.7	6.0	5.7	5.8
Spread (%)	3.0	3.1	2.8	3.0	3.3	3.6	3.6	3.8
NIM (%)	3.2	3.4	3.2	3.5	3.8	4.0	4.0	4.2

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	71.5	70.2	70.1	66.7	62.2	58.0	57.2	56.5
Fee Income/NII (%)	-	-	-	-	18.2	17.9	18.1	16.3
Cost to Income (%)	41.7	45.2	42.8	40.1	40.9	38.5	41.9	39.2
Cost on Average Assets (%)	1.9	2.1	2.1	2.0	2.2	2.1	2.2	2.1
Tax Rate (%)	20.1	16.1	24.2	26.2	27.4	25.1	25.6	27.0

Valuation Ratio Metrics

EPS (Rs)	4.9	5.3	5.5	6.2	7.0	8.2	9.4	11.6
Change (%)	(13.0)	7.0	3.5	12.6	13.1	17	15	23.4
ROAE (%)	22.3	18.9	16.3	15.5	15.2	15.3	15.3	16.3
ROAA (%)	1.6	1.4	1.5	1.5	1.5	1.6	1.6	1.7
Dividend Payout (%)	16.7	15.6	16.6	16.1	3.9	3.7	5.3	5.2
Dividend yield (%)	2.3	2.2	1.4	1.5	0.2	0.2	0.3	0.3
Book Value (Rs)	25.2	30.8	37.3	42.3	49.5	57.3	65.8	76.6
Change (%)	(0)	23	21	13	17	16	15	17
P/B (X)	1.7	1.4	2.1	1.9	2.5	2.7	2.9	2.5
P/E (X)	8.8	8.4	14.6	12.7	17.9	19.2	20.3	16.5

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	10.6	10.2	9.9	9.5	9.0	8.8	9.0
<i>Interest expended</i>	7.4	7.2	6.6	5.9	5.2	5.0	5.1
<i>Net Interest Income</i>	3.2	3.1	3.3	3.6	3.8	3.8	3.9
<i>Non-Fund Based Income</i>	1.3	1.5	1.4	1.4	1.4	1.2	1.1
>> <i>Core Fee Income</i>	0.7	0.7	0.7	0.6	0.7	0.7	0.6
>> <i>Trading and Other Income</i>	0.5	0.8	0.7	0.8	0.7	0.5	0.5
<i>Core Operating Income</i>	3.9	3.8	4.0	4.2	4.5	4.4	4.6
<i>Total Income</i>	4.4	4.6	4.7	5.0	5.2	4.9	5.0
<i>Total Operating Expenses</i>	2.0	2.0	1.9	2.1	2.0	2.1	2.0
>> <i>Employee Expenses</i>	0.8	0.8	0.7	0.9	0.8	0.8	0.8
>> <i>Other Expenses</i>	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<i>Operating Profit</i>	2.4	2.6	2.8	3.0	3.2	2.8	3.0
<i>Provisions</i>	0.7	0.7	0.8	0.9	1.1	0.7	0.8
<i>Others</i>	-	0.0	-	-	-	-	-
<i>PBT</i>	1.7	1.9	2.0	2.1	2.1	2.1	2.3
<i>Tax</i>	0.3	0.5	0.5	0.6	0.5	0.5	0.6
<i>PAT/RoAA</i>	1.4	1.5	1.5	1.5	1.6	1.6	1.7
<i>Equity Multiplier (x)</i>	13.1	11.2	10.4	10.1	9.7	9.7	9.8
<i>ROAE</i>	18.9	16.3	15.5	15.2	15.3	15.3	16.3

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Analyst's ownership of the stocks mentioned in the Report	NIL
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