

Industry Financial
Bloomberg CUBK IN
BSE CODE 532210

Growth Moderates. Slippages spikes due to one-offs

RATING	ACCUMULATE
CMP	196
Price Target	220
Potential Upside	13%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	157/220
Mkt Capital (Rs Cr)	14,293
Free float (%)	100%
Avg. Vol 1M (,000)	70
No. of Shares (Cr)	73
Promoters Pledged %	

Fig. in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1611	1793	2152
PPP	1240	1448	1700
PAT	683	769	930
NIM %	4.0	3.8	3.8
EPS (Rs)	9	11	13
EPS growth	15	13	21
ROE (%)	15	15	16
ROA (%)	1.6	1.6	1.6
BV	66	76	88
P/B (X)	3.1	2.6	2.2
P/E (x)	22	19	15

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1QFY20 Result Update

- NII for the quarter grew by 11% YoY to Rs 417 Cr while the NIM stood at 4.11% v/s 4.40% in Q4FY19. The other income during the quarter grew by 26% YoY with high treasury gain. The PAT grew by 15% YoY.
- Advance growth moderated to seven quarter low of 14%/-1% on YoY/QoQ. Deposits grew by 16%/1% on YoY/QoQ basis. CASA grew by 14% on YoY/-5.54% on YoY/QoQ basis.
- GNPA Stood at 3.34% v/s 2.95% in Q4FY19 while the NNPA stood at 1.89% v/s 1.81% in Q4FY19. The slippages remain elevated during the quarter at Rs 200 Cr while the reductions were Rs 101 Cr.

Asset quality deteriorates

GNPA during the quarter Stood at 3.34% v/s 2.95% in Q4FY19 while the NNPA stood at 1.89% v/s 1.81% in Q4FY19. The slippages remain elevated during the quarter at Rs 200 Cr while the reductions were Rs 101 Cr. Spike in the slippages was on account of an educational institution worth Rs 50 Cr exposure. The recovery during the quarter was Rs 37 Cr upgradations were Rs 11 Cr while the write off were Rs 53 Cr. The outstanding security receipt were Rs 313 Cr. The PCR ratios stood at 65% at the end of the quarter. Management is not seeing any additional stress in MSME sector however is conscious of the opinions in the market.

Steady advance/Deposit growth

Advance growth slightly moderated to 14%/-1% on YoY/QoQ. The secured advance stood at Rs 31988 Cr while the unsecured advance was Rs 241 Cr. Agriculture portfolio grew by 14% YoY, housing loan grew by 12% YoY and retail traders loan slowed down to 1.3% YoY. While there was slower growth in majority of the segment, loan to NBFC segment declined by 12% YoY. There was strong growth of 44% in commercial real estate segment despite the industry pressure. Management has maintained the advance growth guidance to be between 18-20%.

Below Par NIM

NII for the quarter grew by 11% YoY to Rs 417 Cr however it was below our estimates as the NIM stood at 4.11% v/s 4.40% in Q4FY19. The majority of NIM reduction was on account of fall in CD ratio to 83% v/s 86% in Q4FY19 excluding which NIM reduction would have been between 3-5 bps. The cost of deposits stood at 6.27% v/s the 6.15% in Q1FY19 while the cost of fund increased to 5.37% v/s 5.21% in Q1FY19. The yield on advance stood at 10.97% v/s the 10.86% in Q1FY19 and 11.7% in Q4FY19. For FY20 management has said it would be looking to keep NIM levels above 4%.

The cost to income ratio during the quarter was 39.43% v/s 40.6% in Q1FY19. The employee expense grew by 15% YoY and other expenses grew by 10% YoY.

View and Valuation

CUB continues to report stable set of performance amid the slowdown and risk concerns over the SME segment. However, there was marginal blip in assets quality. Barring slippages from the educational account as earlier indicated by management, delinquencies remained scattered into the sector. Management has not witnessed any pressure in its portfolio and is hopeful to maintain slippages guidance of 1.75-2% in FY20. Management is seeking the shareholders' approval for an enabling resolution for QIP issue of Rs.500 cr. Stress and slowdown in the MSME segment can moderate the loan book growth of CUB. We reduce our earnings estimates by 6% for FY20 and value the stock at Rs 220 (2.5x BV FY21e) and recommend ACCUMULATE

Key Risks to our rating and target

- Slowdown in MSME segment will pressurize the growth
- Stress in the MSME can increase the delinquency rate

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1Q FY20 Results
In Line with Expectation
Stable Performance

Fig. in Rs Cr

<i>Financials</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY18</i>	<i>FY19</i>	<i>YoY %</i>
<i>Interest Inc.</i>	890	926	967	985	1,029	15.7%	4.5%	3,402	3,767	10.7%
<i>Interest Exp.</i>	515	528	549	564	612	19.0%	8.6%	1,972	2,156	9.3%
<i>NII</i>	375	398	418	421	417	11.2%	-0.9%	1,430	1,611	12.7%
<i>Other Income</i>	129	119	120	147	163	26.5%	11.2%	532	514	-3.3%
<i>Total Income</i>	504	517	538	567	580	15.1%	2.2%	1,962	2,126	8.3%
<i>Ope Exp.</i>	204	221	231	230	229	11.9%	-0.4%	755	886	17.4%
<i>PPP</i>	299	296	307	338	351	17.4%	4.0%	1,208	1,240	2.7%
<i>Provisions</i>	78	68	79	91	116	48.9%	27.7%	418	315	-24.6%
<i>PBT</i>	222	228	228	247	236	6.3%	-4.6%	790	925	17.1%
<i>Tax</i>	60	60	50	72	50	-17%	-30.6%	198	242	22%
<i>Net Profit</i>	162	168	178	175	186	14.8%	6.0%	592	683	15%

Concall highlights:

- The Management has maintained the advance growth target at 18-20% for FY20. The cost to income ratio is expected to be at 42%, slippage ratio is expected to be between 1.75%-2%. ROA is expected to be between 1.5%-1.6%.
- Spike in the slippages was on account of an educational institution worth Rs 50 Cr exposure. The remaining slippages were all less than 10 Cr and were not related to any specific group. The management said they are safe on the agri loan side as a majority of that exposure is through gold loan.
- The bulk of NIM reduction was on account of fall in CD ratio to 83% v/s 86% in Q4FY19 excluding which NIM reduction would have been between 3-5 bps. The management has guided for NIM around the current levels +/- 10/20 bps. The increase in CD ratio going forward may benefit NIM. Given the current conditions management has guided it would be looking to maintain NIM above 4% for FY20.
- Management stated with current yield movement there are still chance of having good treasury gains.
- Security receipts were Rs 313.4 Cr. Out of the receipts 4 accounts constitutes 90% , the resolution have started and payment have been finalized in all the 4 accounts. The management has received sum of Rs 10.5 Cr during Q1FY20.
- On MSME management said they are not seeing any additional stress currently however are conscious of the opinions created in the market.
- The tax rate was low because of the write back of the additional provision on tax.
- Management said it is not looking to increase CASA levels and it is not a part of their strategy and does not expect any substantial change going forward
- Management is planning to open around 50 branches during the year

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	39.1	39.7	40.6	42.7	43.0	40.5	39.4	-1.15	-1.05
Empl. Cost/ Tot. Exp. %	42.0	39.7	42.7	42.2	40.1	39.8	43.9	1.18	4.09
Other Exp/Tot. Exp. %	58.0	60.3	57.3	57.8	59.9	60.2	56.1	-1.18	-4.09
Provision/PPP %	28.9	29.3	26.0	23.0	25.7	26.8	32.9	6.97	6.10
Tax Rate %	26.6	26.9	27.1	26.3	21.9	29.1	21.2	-5.85	-7.92
Int Exp./Int Inc. (%)	57.8	57.7	57.9	57.0	56.7	57.3	59.5	1.63	2.22
Other Inc./Net Inc. %	25.0	24.6	25.6	22.9	22.3	25.9	28.1	2.52	2.26
PAT/ Net Income %	31.8	31.2	32.1	32.5	33.1	30.9	32.0	-0.08	1.14
PAT Growth %	22.2	18.0	15.2	16.0	15.1	15.1	14.8	-0.35	-0.26
NII Growth %	18.9	18.5	9.5	12.2	14.5	14.3	11.2	1.77	-3.08
Op. Profit	8.4	18.8	0.8	(7.5)	3.5	14.8	17.4	16.54	2.58
RoE %	15.7	15.2	15.3	15.2	15.6	15.1	15.2	-0.10	0.16
RoA %	1.6	1.6	1.6	1.6	1.7	1.6	1.6	-0.01	0.00

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on	11.4	11.2	10.9	10.9	11.0	11.1	11.0	0.11	-0.10
Global Yield on	6.9	6.9	6.9	7.0	7.0	7.0	6.9	0.02	-0.03
Yield on Total	9.2	9.1	9.0	8.9	9.1	9.2	9.0	0.02	-0.13
Cost of Deposits	6.2	6.2	6.2	6.1	6.2	6.3	6.3	0.12	0.00
Cost Of Funds	5.3	5.2	5.2	5.1	5.2	5.2	5.4	0.16	0.13
NIM	4.4	4.4	4.2	4.3	4.4	4.4	4.1	-0.13	-0.29

Exhibit: Yield and Cost
cost of deposit increased.

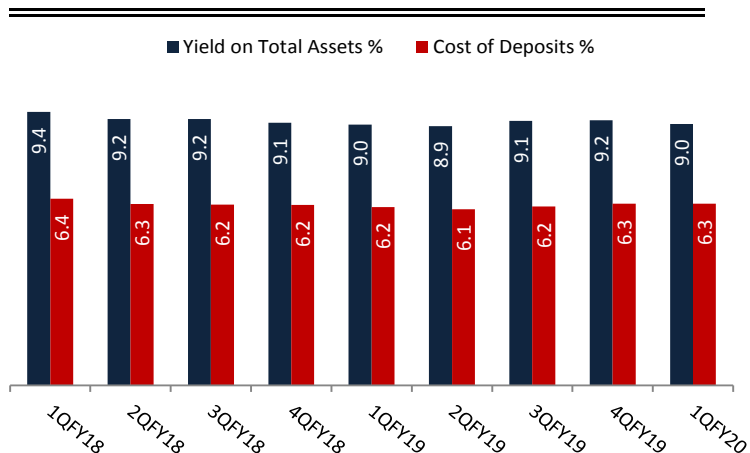


Exhibit: Net Interest Margin
NIM Falls

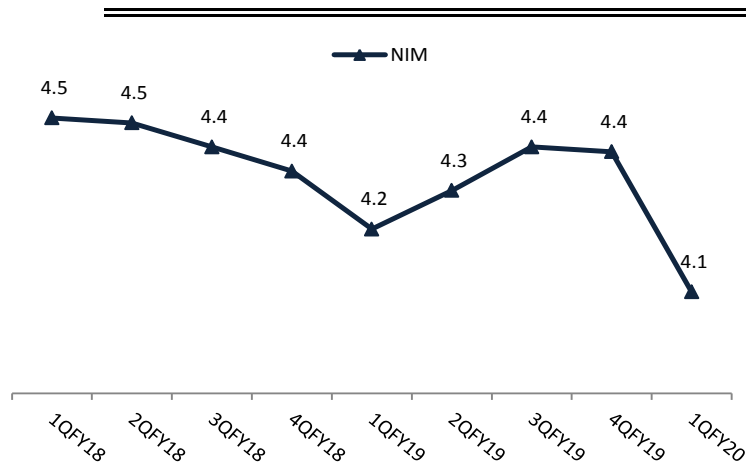


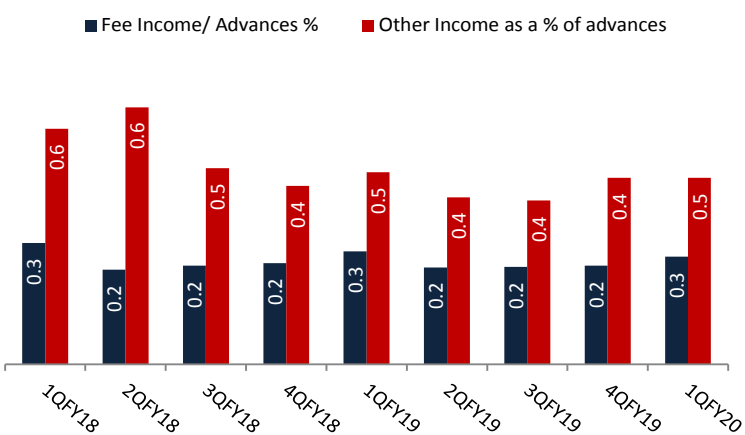
Fig. in Rs Cr

Other Income Break Up-

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Commission, Exchange, Bro	70	57	61	68	76	69	71	78	80
Total Fee-Based Income	70	57	61	68	76	69	71	78	80
Growth YoY %	27%	10%	17%	17%	9%	20%	16%	14%	5%
Treasury Income	39	65	34	30	19	21	21	26	45
Other Inc incl recoveries in v	27	33	26	22	34	28	28	44	39
Other Income	135	155	122	120	129	119	120	147	163
Growth YoY %	22%	49%	-15%	-5%	-5%	-24%	-2%	23%	26%

Exhibit: Fee Income/Advances %

Fee income as a % of total advances remained stable.

**Exhibit: Other Income/ Total Income %**

Other income as % of total income increased

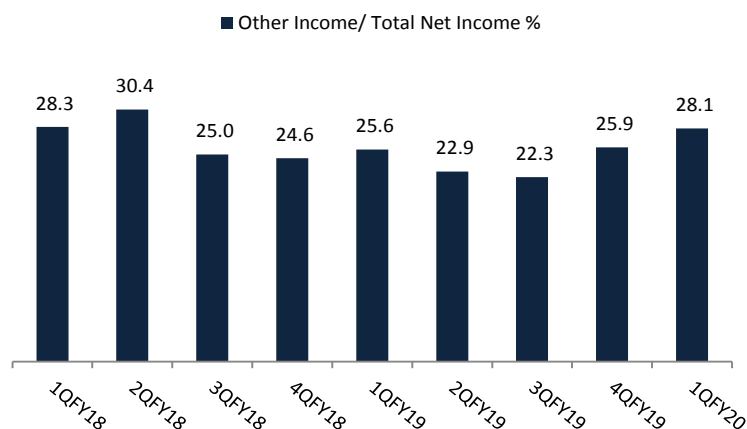
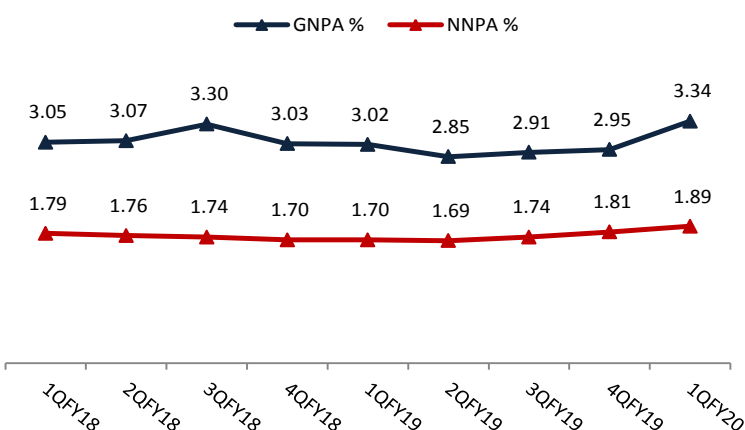
**Asset Quality**

Fig. in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	860	857	851	848	892	977	1,076	26%	10%
GNPA %	3.3	3.0	3.0	2.9	2.9	3.0	3.3	0.32	0.39
NNPA (Rs in Cr)	448	475	474	498	528	591	600	27%	1%
NNPA %	1.7	1.7	1.7	1.7	1.7	1.8	1.9	0.19	0.08
Slippages (Rs in Cr)	132	148	126	136	166	204	200	59%	-2%
PCR %	65.0	64.0	65.0	61.8	65.0	63.0	65.0	0.00	2.00

Exhibit: Asset Quality

Assets Quality was impacted.

**Exhibit: Provisions**

PCR improved

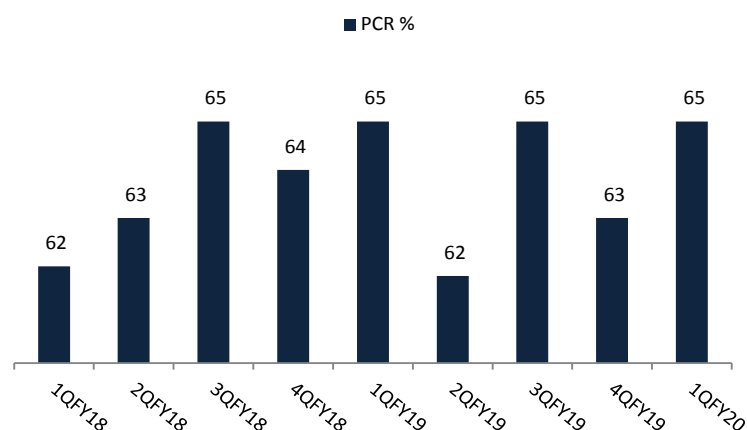
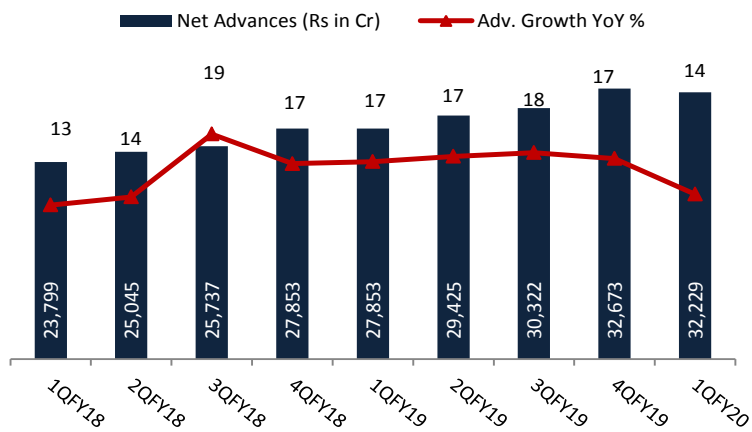
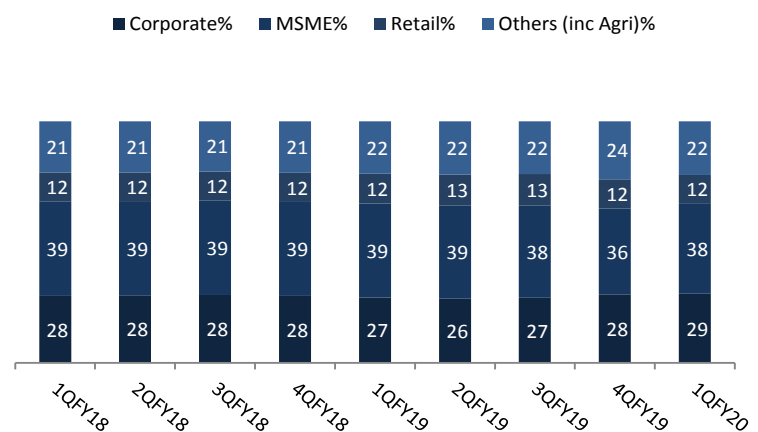
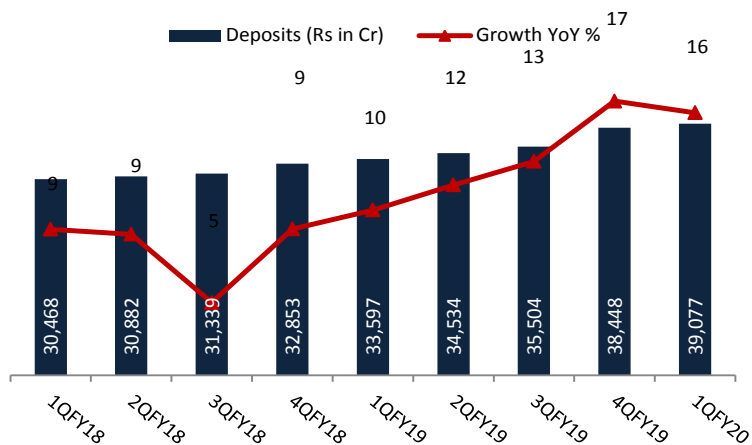
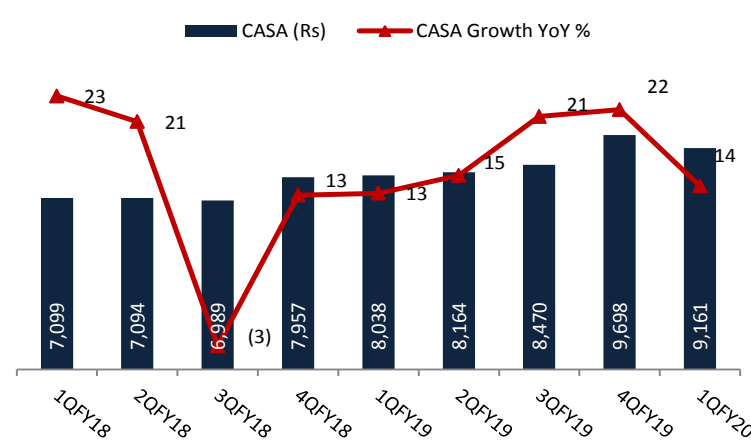
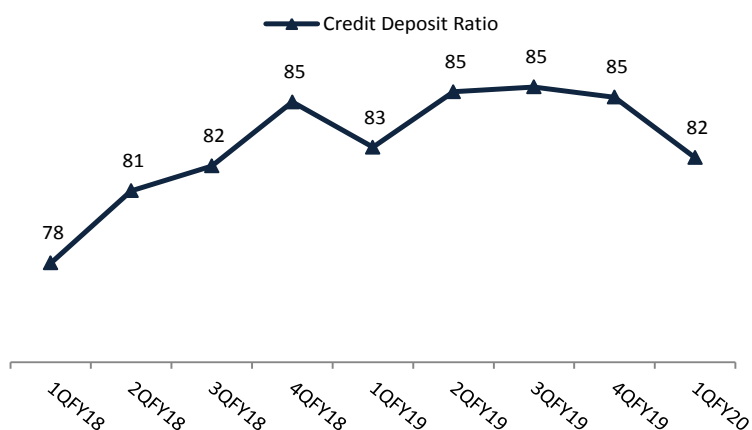
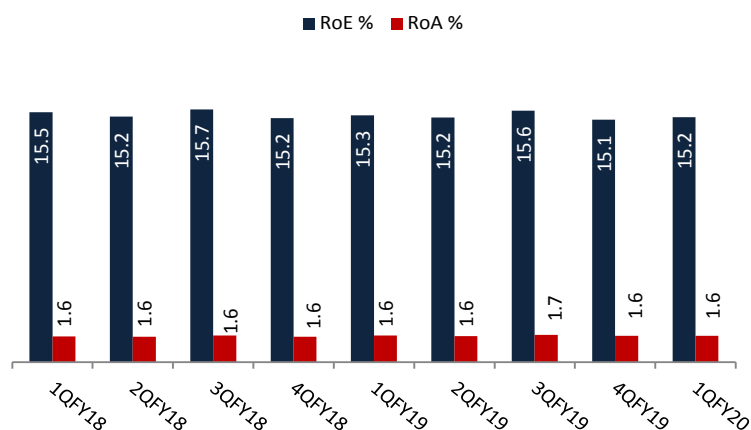


Exhibit: Advances Performance*Advances growth increased.***Exhibit: Advances Breakup%***Portfolio has slightly tilted towards retail profile.***Exhibit: Deposits Performance***Healthy deposit growth***Exhibit: CASA Performance***CASA growth declined***Exhibit: Credit Deposit Ratio***CD ratio falls***Exhibit: Return Ratios.***Return ratios improved.*

Financial Details

Balance Sheet

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	54	60	60	60	66	73	73	73
>> Equity Capital	54	60	60	60	66	73	73	73
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1971	2636	2992	3510	4097	4767	5484	6361
Networth	2025	2696	3052	3570	4163	4841	5557	6434
Deposits	22017	24075	27158	30116	32853	38448	45627	53839
Change (%)	8.4	9.3	12.8	10.9	9.1	17.0	18.7	18.0
>> CASA Deposits	3917	4631	5533	7039	7957	9698	10950	12921
Change (%)	15.1	18.2	19.5	27.2	13.0	21.9	12.9	18.0
Borrowings	305	169	664	531	1736	481	777	1042
Other Liabilities & Prov.	647	932	929	1054	1186	1489	1724	1990
Total Liabilities	24994	27871	31804	35271	39937	45259	53685	63305
Cash & Bank	2180	2537	2650	2879	2636	2963	3078	3331
Investments	5954	6365	6826	7031	7879	7712	9868	12173
Change (%)	13.0	6.9	7.2	3.0	12.1	-2.1	27.9	23.4
Advances	16097	17966	21057	23833	27853	32673	38555	45494
Change (%)	5.6	11.6	17.2	13.2	16.9	17.3	18.0	18.0
Fixed Assets	183	210	218	215	223	250	258	265
Other Assets	581	793	1053	1313	1346	1660	1928	2041
Total Assets	24994	27871	31804	35271	39937	45259	53685	63305

Income Statement

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	2546	2699	2944	3174	3402	3767	4312	5041
Interest expended	1787	1891	1963	1975	1972	2156	2519	2889
Net Interest Income	759	807	981	1199	1430	1611	1793	2152
Change (%)	21.7	6.3	21.5	22.2	19.3	12.7	11.2	20.0
Other Income	301	404	410	484	532	514	616	681
Change (%)	10.1	34.2	1.5	18.0	10.0	-3.3	19.8	10.5
>> Core Fee Income	174	197	211	218	256	294	328	398
>> Treasury Income	56	129	126	206	168	87	154	153
>> Others	71	78	73	61	108	134	134	130
Total Net Income	1061	1211	1391	1683	1962	2126	2409	2833
Operating Expenses	480	519	558	689	755	886	961	1133
Change (%)	28.2	8.2	7.5	23.5	9.5	17.4	8.4	18.0
>> Employee Expenses	186	210	213	298	316	364	403	467
Pre-provisioning Profit	581	693	833	994	1208	1240	1448	1700
Change (%)	11.0	19.2	20.3	19.3	21.5	2.7	16.8	17.4
Provisions	167	183	231	301	418	315	413	426
Change (%)	39.0	9.0	26.3	30.5	38.8	-24.6	31.1	3.1
PBT	414	521	603	693	790	925	1035	1274
Tax	67	126	158	190	198	242	266	344
Profit After Tax	347	395	445	503	592	683	769	930
Change (%)	7.8	13.8	12.6	13.1	17.7	15.3	12.7	20.9

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	6	12	17	13	17	17	18	18
Deposit Growth (%)	8	9	13	11	9	17	19	18
C/D Ratio (%)	73.1	74.6	77.5	79.1	84.8	85.0	84.5	84.5
CASA (%)	17.8	19.2	20.4	23.4	24.2	25.2	24.0	24.0
Investment/Deposit (%)	27.0	26.4	25.1	23.3	24.0	20.1	21.6	22.6
CRAR (%)	15.0	16.5	15.6	15.8	16.2	15.6	15.0	14.7
>> Tier 1 (%)	14.4	16.0	15.1	15.4	15.8	15.0	14.7	14.4
>> Tier 2 (%)	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.3

Assets Quality Metrics

Fig. in Rs Cr

Gross NPA (Rs)	293	336	512	682	857	977	1,231	1,510
Gross NPA (%)	1.8	1.9	2.4	2.8	3.0	3.0	3.2	3.3
Net NPA(Rs)	197	233	323	408	475	591	677	830
Net NPA (%)	1.2	1.3	1.5	1.7	1.7	1.8	1.8	1.8
Slippages (%)	3	4	2	2	2	2	2	2
Provision Coverage (%)	62	58	60	61	64	63	66	66
Provision/Average Advances (%)	1.1	1.1	1.2	1.3	1.6	1.0	1.2	1.0

Margin Metrics

Yield On Advances (%)	13.3	12.7	12.1	11.5	11.0	10.5	10.3	10.3
Yield On Investment (%)	7.8	8.4	8.2	7.8	7.0	7.1	6.5	6.1
Yield on Earning Assets (%)	11.3	10.8	10.5	10.0	9.6	9.4	9.2	9.0
Cost Of Deposits (%)	8.2	8.0	7.5	6.8	6.1	5.9	5.9	5.7
Cost Of Funds (%)	8.2	8.0	7.5	6.7	6.0	5.8	5.8	5.6
Spread (%)	3.1	2.8	3.0	3.3	3.6	3.6	3.4	3.4
NIM (%)	3.4	3.2	3.5	3.8	4.0	4.0	3.8	3.8

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	70.2	70.1	66.7	62.2	58.0	57.2	58.4	57.3
Fee Income/NII (%)	-	-	-	18.2	17.9	18.2	18.3	18.5
Cost to Income (%)	45.2	42.8	40.1	40.9	38.5	41.7	39.9	40.0
Cost on Average Assets (%)	2.0	2.0	1.9	2.1	2.0	2.1	1.9	1.9
Tax Rate (%)	16.1	24.2	26.2	27.4	25.1	26.2	25.7	27.0

Valuation Ratio Metrics

EPS (Rs)	5.3	5.5	6.2	7.0	8.2	9.3	10.5	12.7
Change (%)	7.0	3.5	12.6	13.1	17.0	15	13	20.9
ROAE (%)	18.9	16.3	15.5	15.2	15.3	15.2	14.8	15.5
ROAA (%)	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Dividend Payout (%)	15.6	16.6	16.1	3.9	3.7	5.4	5.7	4.7
Dividend yield (%)	2.2	1.4	1.5	0.2	0.2	0.2	0.3	0.3
Book Value (Rs)	30.8	37.3	42.3	49.5	57.3	66.1	75.9	87.9
Change (%)	23	21	13	17	16	15	15	16
P/B (X)	1.4	2.1	1.9	2.5	2.7	3.1	2.6	2.2
P/E (X)	8.4	14.6	12.7	17.9	19.2	21.8	18.5	15.3

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	10.2	9.9	9.5	9.0	8.8	8.7	8.6
<i>Interest expended</i>	7.2	6.6	5.9	5.2	5.1	5.1	4.9
<i>Net Interest Income</i>	3.1	3.3	3.6	3.8	3.8	3.6	3.7
<i>Non-Fund Based Income</i>	1.5	1.4	1.4	1.4	1.2	1.2	1.2
>> <i>Core Fee Income</i>	0.7	0.7	0.6	0.7	0.7	0.7	0.7
>> <i>Trading and Other Income</i>	0.8	0.7	0.8	0.7	0.5	0.6	0.5
<i>Core Operating Income</i>	3.8	4.0	4.2	4.5	4.5	4.3	4.4
<i>Total Income</i>	4.6	4.7	5.0	5.2	5.0	4.9	4.8
<i>Total Operating Expenses</i>	2.0	1.9	2.1	2.0	2.1	1.9	1.9
>> <i>Employee Expenses</i>	0.8	0.7	0.9	0.8	0.9	0.8	0.8
>> <i>Other Expenses</i>	1.2	1.2	1.2	1.2	1.2	1.1	1.1
<i>Operating Profit</i>	2.6	2.8	3.0	3.2	2.9	2.9	2.9
<i>Provisions</i>	0.7	0.8	0.9	1.1	0.7	0.8	0.7
<i>Others</i>	0.0	-	-	-	-	-	-
<i>PBT</i>	1.9	2.0	2.1	2.1	2.2	2.1	2.2
<i>Tax</i>	0.5	0.5	0.6	0.5	0.6	0.5	0.6
<i>PAT/RoAA</i>	1.5	1.5	1.5	1.6	1.6	1.6	1.6
<i>Equity Multiplier (x)</i>	11.2	10.4	10.1	9.7	9.5	9.5	9.8
<i>ROAE</i>	16.3	15.5	15.2	15.3	15.2	14.8	15.5

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Disclosure of Interest Statement-

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