

Industry
Bloomberg
BSE CODE

Financial
CUBK IN
532210

Dismal Performance on account Moderation in credit growth and elevated slippages

RATING	NEUTRAL
CMP	228
Price Target	219
Potential Upside	-4%
Rating Change	↔
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	249/172
Mkt Capital (Rs Cr)	16,739
Free float (%)	100%
Avg. Vol 1M (,000)	740
No. of Shares (Cr)	73
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1611	1701	1957
PPP	1240	1350	1490
PAT	683	753	836
NIM %	4.0	3.7	3.7
EPS (Rs)	9	10	11
EPS growth (%)	15	10	11
ROE (%)	15	15	14
ROA (%)	1.6	1.6	1.5
BV	66	76	86
P/B (X)	3.1	3.0	2.6
P/E (X)	22	22	20

3QFY20 Result Update

- NII for the quarter grew by 2% YoY to Rs 427 Cr while the NIM stood at 3.96% v/s 4.41% in 3QFY19. The other income during the quarter grew by 18% YoY with high treasury gain. PAT grew by 8% YoY driven by higher other income. C/I ratio jumped to 46% against 43% QoQ.
- Advance grew by 12%/3% on YoY/QoQ. Deposits grew by 12%/-1% on YoY/QoQ basis. CASA grew by 10%/-7% on YoY/QoQ basis.
- GNPA Stood at 3.50% v/s 3.41% in 2Q FY20 while the NNPA stood at 1.95% v/s 1.90% in 2Q FY20. Slippages remain elevated during the quarter to Rs 230 Cr while the reductions were Rs 179 Cr. Provisions during the quarter stood at Rs 81 Cr.

Moderate NII growth

NII for the quarter grew by 2% YoY to Rs 427 Cr inline with our estimates the NIM stood at 3.96% v/s 4.41% in 3Q FY19. The cost of deposits stood at 6.17% ,while the cost of fund was 5.18% . The yield on advance stood at 10.73% v/s the 10.96% in 3Q FY19 and 10.76% in 2Q FY19. The cost to income ratio during the quarter was 46% v/s 43% in 2Q FY19. The employee expense grew by 22% YoY and other expenses grew by 7% YoY. Improvement in NIM sequentially was on account of the CD ratio increase however management expects the NIM to be under pressure in Near tem.

High Level of slippages

GNPA Stood at 3.50% v/s 3.41% in 2Q FY20 while the NNPA stood at 1.95% v/s 1.90% in 2Q FY20. The slippages remain elevated during the quarter to Rs 230 Cr while the reductions were Rs 179 Cr. Management expects slippages to be in similar range going forward. The recovery during the quarter was Rs 30 Cr upgradations were Rs 97 Cr while the write off were Rs 52 Cr. The Rs 50-60 Cr of the recovery was on account of the upgradation educational account from the advance money received they got for sale deed. The Outstanding security receipts were Rs 289 Cr. The PCR ratios stood at 65% at the end of the quarter. SMA2 Number is around 6%. There is no incremental or alarming increase in SMA 2 number. Mangement is currently looking for maintain asset quality rather than aggressively going for growth.

Advance growth continues to be moderate

Advance growth moderated to 12%/3% on YoY/QoQ. The secured advance stood at Rs 33567 Cr while the unsecured advance was Rs 261Cr. Growth in agriculture portfolio slowed to 1% YoY housing loan grew by 12% YoY and retail traders loan de-grew by 9% YoY and other personal loans de-grew by 29% YoY. There was strong growth of 60% in commercial real estate segment and infrastructure segment grew by 23% YoY. The deposit growth moderated to 12%/-2% on YoY/QoQ basis. The CASA ratio stood at 23.3% v/s 23.9% YoY and 24.7% QoQ.

View and Valuation

CUB saw moderation of credit growth as well as slippages continued to remain elevated. Given the concerns over the SME sector, assets quality pressure is likely to continue in near term. Loan growth is also expected to be slower with management guiding it priority to be asset quality rather than going aggressively for the growth. NIM is likely to remain under pressure with cautious growth and increase in competition. Given the concern over the SME sector which will impact the growth and performance of the bank, we maintain Neutral view with the target price of Rs 219 (2.5x BV FY21e).

Key Risks to our rating and target

- Further slow down in advance growth
- NIM trend

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3QFY20 Results

NII Below expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	967	985	1,029	1,037	1,061	9.7%	2.3%	3,402	3,767	10.7%
Interest Exp.	549	564	612	625	634	15.5%	1.3%	1,972	2,156	9.3%
NII	418	421	417	412	427	2.2%	3.8%	1,430	1,611	12.7%
Other Income	120	147	163	195	142	18.8%	-27.0%	532	514	-3.3%
Total Income	538	567	580	607	570	5.9%	-6.1%	1,962	2,126	8.3%
Ope Exp.	231	230	229	260	261	13.0%	0.4%	755	886	17.4%
PPP	307	338	351	346	308	0.5%	-11.0%	1,208	1,240	2.7%
Provisions	79	91	116	108	81	2.9%	-25.0%	418	315	-24.6%
PBT	228	247	236	239	227	-0.3%	-4.7%	790	925	17.1%
Tax	50	72	50	45	35	-30%	-22.2%	198	242	22%
Net Profit	178	175	186	194	192	8.0%	-0.6%	592	683	15%

Concall Highlights

- The Management is looking for better asset quality rather than advance growth in the current prevailing environment
- One bulky account worth Rs 71 Cr from paper account slipped during the quarter.
- The Rs 50-60 Cr of the recovery was on account of the up gradation educational account from the advance money received they got for sale deed.
- Management said improvement in NIM was due to increase in CD ratio and because banks are sitting on surplus liquidity the pressure on Net Interest margin is expected to continue.
- Top 4 accounts Constitutes for 90% of the SR and bank has received sum of Rs 11.62 Cr in Q1FY20, Rs 10.53 Cr during Q2FY20 and Rs 17.93 Cr during Q3FY20 and Rs 26.78 Cr in Q4FY20 till date. There has been write back in investment provisions worth Rs 8 Cr during the quarter
- SME customers are being told to use the RBI dispensation and during Q3FY20 16 standard accounts were restructured worth Rs 87 Cr. Total outstanding is 133 accounts worth Rs 200 Cr
- SMA2 Number is around 6%. There is no incremental or alarming increase in SMA 2 number.
- Employee cost increase is on account of the provisions for the ex gratias which would be given towards year ends and incremental provisions for the leave encashment which are related to actuarial valuations.
- Deposits rate have been cut around 50-60 bps during the current year by the bank.
- The Slippages are expected to be in similar range going forward as bank has been posting during 9MFY20.
- The 25%-30% of the loan book would be eligible to shift to external benchmark but only when they come for renewal or ask for change in the benchmark immediately.
- The Management expects tax rate to stabilise at around 18% on account of various benefit like various provisions and write off and benefit for Rural advances.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	40.6	42.7	43.0	40.5	39.4	42.9	45.9	2.90	2.98
Empl. Cost/ Tot. Exp. %	42.7	42.2	40.1	39.8	43.9	43.5	43.4	3.26	-0.09
Other Exp/Tot. Exp.%	57.3	57.8	59.9	60.2	56.1	56.5	56.6	-3.26	0.09
Provision/PPP %	26.0	23.0	25.7	26.8	32.9	31.2	26.3	0.60	-4.89
Tax Rate %	27.1	26.3	21.9	29.1	21.2	18.9	15.4	-6.53	-3.48
Int Exp./Int Inc. (%)	57.9	57.0	56.7	57.3	59.5	60.3	59.7	2.98	-0.58
Other Inc./Net Inc. %	25.6	22.9	22.3	25.9	28.1	32.1	25.0	2.72	-7.15
PAT/ Net Income %	32.1	32.5	33.1	30.9	32.0	31.9	33.8	0.67	1.87
PAT Growth %	15.2	16.0	15.1	15.1	14.8	15.2	8.0	-7.02	-7.17
NII Growth % (YoY)	9.5	12.2	14.5	14.3	11.2	3.4	2.2	-12.31	-1.20
Op. Profit Growth YoY %	0.8	(7.5)	3.5	14.8	17.4	17.1	0.5	-3.00	-16.56
RoE %	15.3	15.2	15.6	15.1	15.2	15.2	14.6	-1.03	-0.60
RoA %	1.6	1.6	1.7	1.6	1.6	1.6	1.6	-0.11	-0.05

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.9	10.9	11.0	11.1	11.0	10.8	10.7	-0.23	-0.03
Global Yield on Investment	6.9	7.0	7.0	7.0	6.9	6.7	6.6	-0.35	-0.09
Yield on Total Assets %	9.0	8.9	9.1	9.2	9.0	8.7	8.7	-0.46	-0.01
Cost of Deposits %	6.2	6.1	6.2	6.3	6.3	6.3	6.2	0.00	-0.08
Cost Of Funds	5.2	5.1	5.2	5.2	5.4	5.2	5.2	0.00	-0.05
NIM	4.2	4.3	4.4	4.4	4.1	3.9	4.0	-0.45	0.05

Exhibit: Yield and Cost

cost of deposit decreased

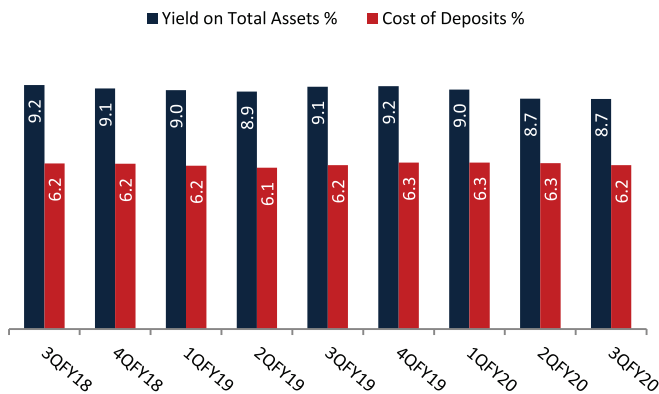
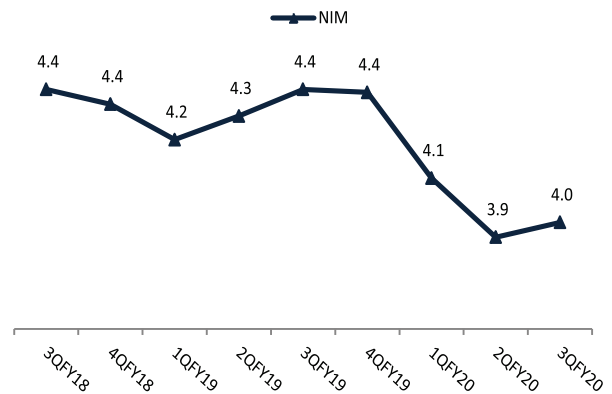


Exhibit: Net Interest Margin

NIM improved



Other Income Break Up-

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Commission, Exchange, Brokerage	68	76	69	71	78	80	76	75
Total Fee-Based Income	68	76	69	71	78	80	76	75
Growth YoY %	17%	9%	20%	16%	14%	5%	10%	5%
Treasury Income	30	19	21	21	26	45	79	42
Other Inc incl recoveries in written off a/cs	22	34	28	28	44	39	40	26
Other Income	120	129	119	120	147	163	195	142
Growth YoY %	-5%	-5%	-24%	-2%	23%	26%	65%	19%

Exhibit: Fee Income/Advances %

Fee income as a % of total advances remained stable.

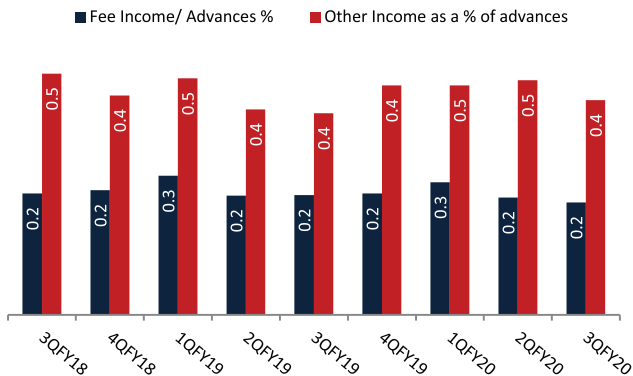
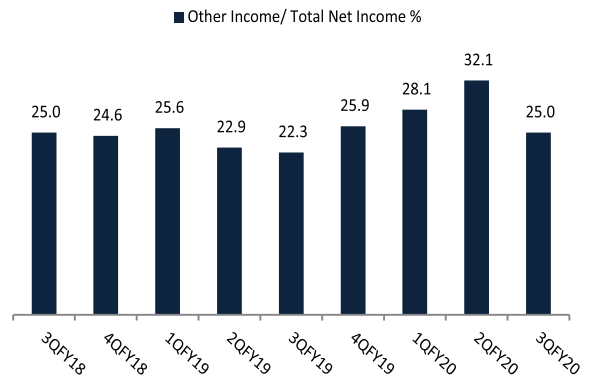


Exhibit: Other Income/ Total Income %

Other income as % of total income increased



Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	851	848	892	977	1,076	1,135	1,185	33%	4%
GNPA %	3.0	2.9	2.9	3.0	3.3	3.4	3.5	0.59	0.09
NNPA (Rs in Cr)	474	498	528	591	600	647	649	23%	0%
NNPA %	1.7	1.7	1.7	1.8	1.9	1.9	2.0	0.21	0.05
Slippages (Rs in Cr)	126	136	166	204	200	200	230	39%	15%
PCR %	65.0	61.8	65.0	63.0	65.0	65.0	65.0	0.00	0.00

Exhibit: Asset Quality

Assets Quality was impacted.

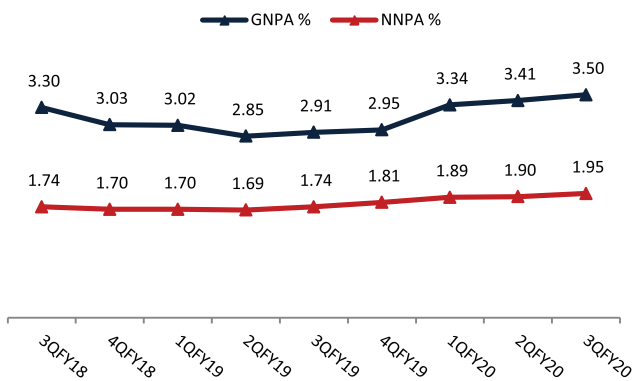


Exhibit: Provisions

PCR stable

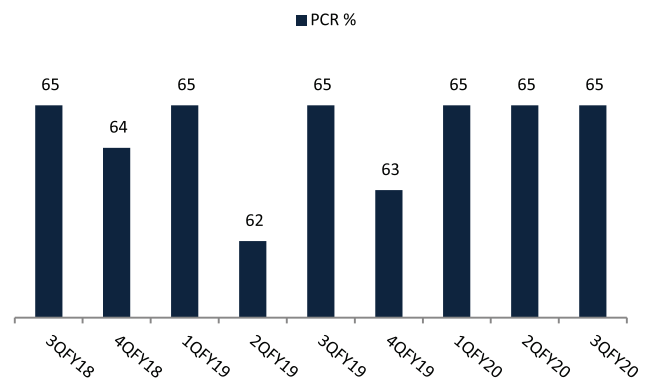


Exhibit: Advances Performance

Advances growth decreased

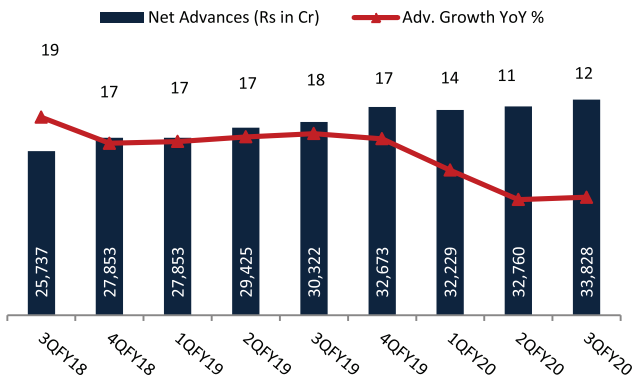


Exhibit: Advances Breakup%

Portfolio has slightly tilted towards retail profile.

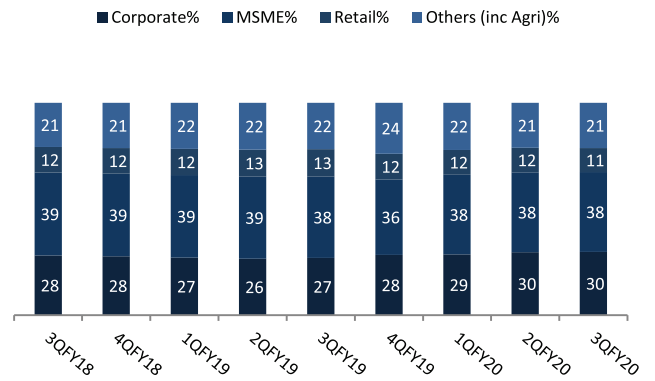


Exhibit: Deposits Performance

deposit growth moderated

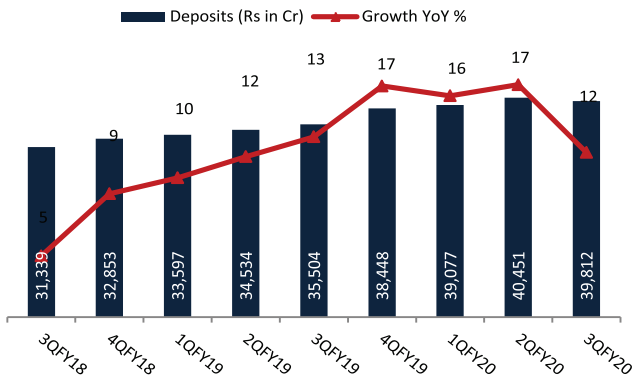


Exhibit: CASA Performance

Casa growth slowed

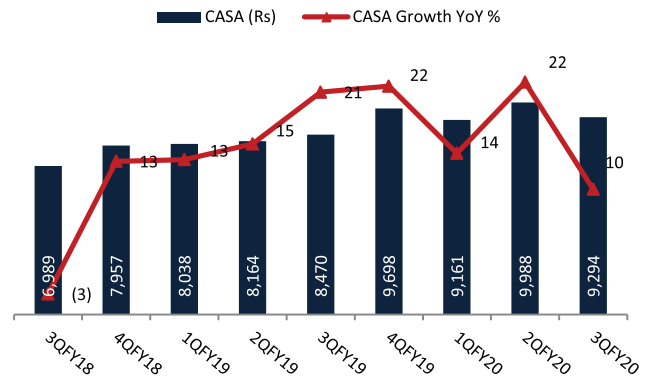


Exhibit: Credit Deposit Ratio

CD ratio increases

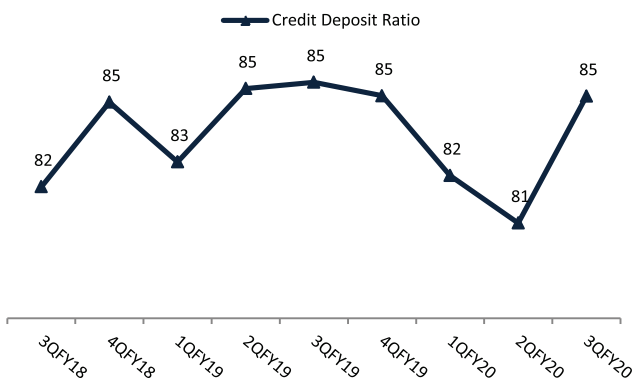
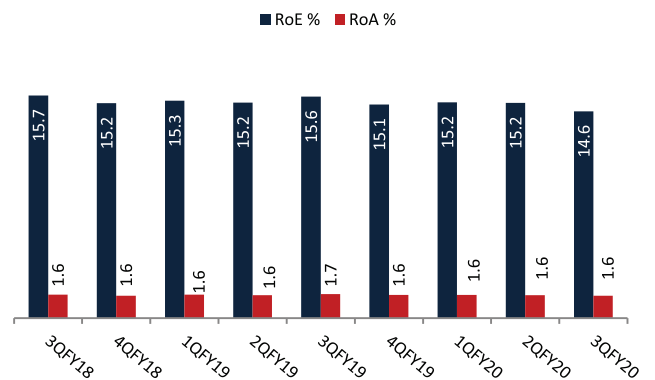


Exhibit: Return Ratios.

Return ratios fell



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	5468	6251
Networth	2025	2696	3052	3570	4163	4841	5541	6325
Deposits	22017	24075	27158	30116	32853	38448	42931	48942
Change (%)	8.4	9.3	12.8	10.9	9.1	17.0	11.7	14.0
CASA Deposits	3917	4631	5533	7039	7957	9698	10304	11746
Change (%)	15.1	18.2	19.5	27.2	13.0	21.9	6.2	14.0
Borrowings	305	169	664	531	1736	481	742	960
Other Liabilities & Prov.	647	932	929	1054	1186	1489	1622	1809
Total Liabilities	24994	27871	31804	35271	39937	45259	50836	58035
Cash & Bank	2180	2537	2650	2879	2636	2963	2527	2726
Investments	5954	6365	6826	7031	7879	7712	9285	11066
Change (%)	13.0	6.9	7.2	3.0	12.1	-2.1	20.4	19.2
Advances	16097	17966	21057	23833	27853	32673	36921	42090
Change (%)	5.6	11.6	17.2	13.2	16.9	17.3	13.0	14.0
Fixed Assets	183	210	218	215	223	250	258	265
Other Assets	581	793	1053	1313	1346	1660	1846	1889
Total Assets	24994	27871	31804	35271	39937	45259	50836	58035

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	4225	4704
Interest expended	1787	1891	1963	1975	1972	2156	2524	2746
Net Interest Income	759	807	981	1199	1430	1611	1701	1957
Change (%)	21.7	6.3	21.5	22.2	19.3	12.7	5.6	15.0
Other Income	301	404	410	484	532	514	656	648
Change (%)	10.1	34.2	1.5	18.0	10.0	-3.3	27.5	-1.2
Core Fee Income	174	197	211	218	256	294	315	371
Treasury Income	56	129	126	206	168	87	205	146
Others	71	78	73	61	108	134	135	130
Total Net Income	1061	1211	1391	1683	1962	2126	2357	2605
Operating Expenses	480	519	558	689	755	886	1007	1115
Change (%)	28.2	8.2	7.5	23.5	9.5	17.4	13.7	10.7
Employee Expenses	186	210	213	298	316	364	439	485
Pre-provisioning Profit	581	693	833	994	1208	1240	1350	1490
Change (%)	11.0	19.2	20.3	19.3	21.5	2.7	8.9	10.4
Provisions	167	183	231	301	418	315	415	418
Change (%)	39.0	9.0	26.3	30.5	38.8	-24.6	31.8	0.8
PBT	414	521	603	693	790	925	935	1072
Tax	67	126	158	190	198	242	181	236
Profit After Tax	347	395	445	503	592	683	753	836
Change (%)	7.8	13.8	12.6	13.1	17.7	15.3	10.3	10.9

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	13	14
Deposit Growth (%)	8	9	13	11	9	17	12	14
C/D Ratio (%)	73.1	74.6	77.5	79.1	84.8	85.0	86.0	86.0
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	15.8	15.8
Tier 1 (%)	14.4	16.0	15.1	15.4	15.8	15.0	15.5	15.5
Tier 2 (%)	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.3

Assets Quality Metrics

Gross NPA (Rs)	293	336	512	682	857	977	1,261	1,582
Gross NPA (%)	1.8	1.9	2.4	2.8	3.0	3.0	3.4	3.7
Net NPA(Rs)	197	233	323	408	475	591	694	870
Net NPA (%)	1.2	1.3	1.5	1.7	1.7	1.8	1.9	2.1
Slippages (%)	3	4	2	2	2	2	3	
Provision Coverage (%)	62	58	60	61	64	63	65	65
Provision/Average Advances (%)	1.1	1.1	1.2	1.3	1.6	1.0	1.2	1.1

Margin Metrics

Yield On Advances (%)	13.3	12.7	12.1	11.5	11.0	10.5	10.1	10.0
Yield On Investment (%)	7.8	8.4	8.2	7.8	7.0	7.1	7.4	6.8
Yield on Earning Assets (%)	11.3	10.8	10.5	10.0	9.6	9.4	9.2	8.9
Cost Of Deposits (%)	8.2	8.0	7.5	6.8	6.1	5.9	6.1	5.9
Cost Of Funds (%)	8.2	8.0	7.5	6.7	6.0	5.8	6.0	5.8
Spread (%)	3.1	2.8	3.0	3.3	3.6	3.6	3.2	3.2
NIM (%)	3.4	3.2	3.5	3.8	4.0	4.0	3.7	3.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	70.2	70.1	66.7	62.2	58.0	57.2	59.7	58.4
Fee Income/NII (%)	-	-	-	18.2	17.9	18.2	18.5	19.0
Cost to Income (%)	45.2	42.8	40.1	40.9	38.5	41.7	42.7	42.8
Cost on Average Assets (%)	2.0	2.0	1.9	2.1	2.0	2.1	2.1	2.0
Tax Rate (%)	16.1	24.2	26.2	27.4	25.1	26.2	19.4	22.0

Valuation Ratio Metrics

EPS (Rs)	5.3	5.5	6.2	7.0	8.2	9.3	10.3	11.4
Change (%)	7.0	3.5	12.6	13.1	17.0	15	10	10.9
ROAE (%)	18.9	16.3	15.5	15.2	15.3	15.2	14.5	14.1
ROAA (%)	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.5
Dividend Payout (%)	15.6	16.6	16.1	3.9	3.7	5.4	5.8	5.2
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	75.7	86.4
Change (%)	23	21	13	17	16	15	14	14
P/B (X)	1.4	2.1	1.9	2.5	2.7	3.1	3.0	2.6
P/E (X)	8.4	14.6	12.7	17.9	19.2	21.8	22.1	19.9

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	10.2	9.9	9.5	9.0	8.8	8.8	8.6
Interest expended	7.2	6.6	5.9	5.2	5.1	5.3	5.0
Net Interest Income	3.1	3.3	3.6	3.8	3.8	3.5	3.6
Non-Fund Based Income	1.5	1.4	1.4	1.4	1.2	1.4	1.2
Core Fee Income	0.7	0.7	0.6	0.7	0.7	0.7	0.7
Trading and Other Income	0.8	0.7	0.8	0.7	0.5	0.7	0.5
Core Operating Income	3.8	4.0	4.2	4.5	4.5	4.2	4.3
Total Income	4.6	4.7	5.0	5.2	5.0	4.9	4.8
Total Operating Expenses	2.0	1.9	2.1	2.0	2.1	2.1	2.0
Employee Expenses	0.8	0.7	0.9	0.8	0.9	0.9	0.9
Other Expenses	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Operating Profit	2.6	2.8	3.0	3.2	2.9	2.8	2.7
Provisions	0.7	0.8	0.9	1.1	0.7	0.9	0.8
Others	0.0	-	-	-	-	-	-
PBT	1.9	2.0	2.1	2.1	2.2	1.9	2.0
Tax	0.5	0.5	0.6	0.5	0.6	0.4	0.4
PAT/RoAA	1.5	1.5	1.5	1.6	1.6	1.6	1.5
Equity Multiplier (x)	11.2	10.4	10.1	9.7	9.5	9.3	9.2
ROAE	16.3	15.5	15.2	15.3	15.2	14.5	14.1

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Disclosure of Interest Statement-

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