




Industry
Bloomberg
BSE CODE

Financial
CUBK IN
532210

Moderation in both Loan book and Liability franchise Growth, Slippages Remain Elevated. Higher Credit Cost hits bottom line

RATING	NEUTRAL
CMP	137
Price Target	152
Potential Upside	11%
Rating Change	
Estimate Change	
Target Change	

4QFY20 Result Update

- NII for the quarter degrew by 0.3% YoY to Rs 419 Cr while the NIM stood at 3.91% v/s 4.40% in 4QFY19. The other income during the quarter grew by 22% YoY with high treasury gain. The loss during the quarter was Rs 95 Cr with company making additional provisions Rs 125 Cr provisions was made on the COVID 19.
- Advance grew by 4%/0.29% on YoY/QoQ. Deposits grew by 6%/3% on YoY/QoQ basis. CASA grew by 5% YoY.
- GNPA Stood at 4.09% v/s 3.50% in 3Q FY20 while the NNPA stood at 2.29% v/s 1.95% in 3Q FY20. Slippages remain elevated during the quarter to Rs 481 Cr while the reductions were Rs 253 Cr.

Moderate NII growth

NII for the quarter degrew by 0.3% YoY to Rs 419 Cr on account of loan growth moderation while the NIM stood at 3.91% v/s 4.40% in 4QFY19. The cost of deposits stood at 6.07% ,while the cost of fund was 5.03% . The yield on advance stood at 10.46% v/s the 11.07% in 4Q FY19 and 10.73% in 3Q FY19. The cost to income ratio during the quarter was 44% v/s 46 % in 3Q FY20. The employee expense grew by 2.7% YoY and other expenses grew by 22.8% YoY. The profitability during the quarter suffered on account of the higher provisions due to COVID 19.

High Level of slippages

GNPA Stood at 4.09% v/s 3.50% in 3Q FY20 while the NNPA stood at 2.29% v/s 1.95% in 3Q FY20. Slippages remain elevated during the quarter to Rs 481 Cr while the reductions were Rs 253 Cr. Slippage were high at Rs 481 Cr. The management has guided for 3.25% to 3.5% slippages for FY21. About 52% of the banks customers have opted for the moratorium Around Rs 300 to 400 Cr of SME accounts may be restructured in FY21. IF RBI gives permission of restructuring of NON SME accounts bank will look into it.

Advance/ Liability book growth moderates

Advance grew by 5%/0.29% on YoY/QoQ. Deposits grew by 6%/3% on YoY/QoQ basis. CASA grew by 5% YoY. Secured advance stood at Rs 34315 Cr. The agri portfolio grew by 12% YoY while the JL Non agriculture grew by 105% YoY. Management is currently focussing on balance sheet rather than loan book growth. The Commercial real estate segment grew by 41% YoY and other personal loan segment degrew by 23% YoY. The liability franchise also witnessed a slow growth with With CA deposits degrowing by 9% YoY while the saving deposits grew by 12% YoY.

View and Valuation

CUB Reported an Fairly Subdued Quarter Both advance and deposit growth moderated, NII growth was Flat, Asset quality Deteriorated with slippages remaining high, Management has guided for 3.25% to 3.5% slippages for FY21. bank had loss of 95 Cr during the quarter was impacted due to the high provisions .About 52% of the Banks borrowers have opted for the moratorium. Banks calculated PCR is just about 45% which might require it to make Additional provisioning during FY21 which might hinder the Profitability. Bank has capital adequacy which its thinks should be sufficient but if needed it would raise the capital. The Bank is currently trading at 1.8XBVFY21E. We maintain Neutral With TP of 152 at 2XBVFY21E

Key Risks to our rating and target

- Further slow down in advance growth
- Increase in moratorium customers

STOCK INFO	
52wk Range H/L	249/110
Mkt Capital (Rs Cr)	10,098
Free float (%)	100%
Avg. Vol 1M (,000)	1,359
No. of Shares (Crs)	74
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20	FY21E
NII	1611	1675	1654
PPP	1240	1341	1207
PAT	683	476	246
NIM %	4.0	3.8	3.5
EPS (Rs)	9	7	3
EPS growth (%)	15	10	11
ROE (%)	15	9	4
ROA (%)	1.6	1.0	0.5
BV	66	73	76
P/B (X)	3.1	1.9	1.8
P/E (x)	22	21	41

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4QFY20 Results

PAT Below expectation

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Interest Inc.	985	1,029	1,037	1,061	1,042	5.8%	-1.8%	3,767	4,169	10.7%
Interest Exp.	564	612	625	634	622	10.3%	-1.8%	2,156	2,493	15.7%
NII	421	417	412	427	419	-0.3%	-1.8%	1,611	1,675	4.0%
Other Income	147	163	195	142	179	22.1%	25.9%	514	680	32.2%
Total Income	567	580	607	570	599	5.5%	5.1%	2,126	2,355	10.8%
Ope Exp.	230	229	260	261	264	14.8%	1.0%	886	1,014	14.4%
PPP	338	351	346	308	335	-0.8%	8.6%	1,240	1,341	8.2%
Provisions	91	116	108	81	450	396.7%	456.0%	315	755	139.6%
PBT	247	236	239	227	(115)	-147%	-151%	925	586	-36.6%
Tax	72	50	45	35	(20)	-128%	-157%	242	110	-55%
Net Profit	175	186	194	192	(95)	-154%	-150%	683	476	-30%

Concall Highlights

- Since the start of the lockdown the banks branches have spoken the each borrowers multiple time to understand grassroots level reality. The mood in the grass root is much better than what was expected in the beginning of the lockdown.
- The Activity in the economy is picking up value and volume of transaction are increasing closer to Pre Covid levels.
- Slippage ratio in the year FY21 could be in the range of 3.25% to 3.5%.
- Around Rs 300 to 400 Cr of SME accounts may be restructured in FY21. IF RBI gives permission of restructuring of NON SME accounts bank will look into it.
- As per banks experience historically it has been able to recover 70% slippages of the Net Write OFF.
- Banks believes there could be effect on both operating profit and net profit for FY21 but it shall be able to handle it.
- Banks believes with current level of capital it could face the COVID 19 situation but wont be averse to capital raising in case of need.
- Bank does not have any bulk government deposit even deposit above 2 Crores come to less than 10% of the total deposits.
- Other income is expected to be impacted during the current year on account of the COVID 19 issue.
- Slippages were Rs 250 Cr above the expectation and were from the SMA2 accounts.
- The bank had extended the moratorium to all of its borrowers despite that there are 48% or more borrowers by value who have paid 2 or more instalments. The moratorium was by enlarge uniform across all sectors.
- SMA 0 on 29 FEB 2020 was Rs 175 Cr and SMA 1 was Rs 348 Cr and SMA 2 was Rs 122 Cr. SMA 2.
- The saving bank account rate for balance less than 1 lakh is 3.5% and between Rs 1 to 10 lakh is 3.75% and above that 4%.
- Unsecured lending for the bank is close to 0.
- The additional provisions for COVID has not been used to increase the PCR and Net NPA calculation.
- The reason for reduction in employee expense was because of excess provisions on leave encashment made earlier during the year. The other expense increase of 15% is normal during the year as per bank.
- Employee strength as of right now is 5741 and bank will take call on new branch opening around November this year.

Profitability Matrix

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	42.7	43.0	40.5	39.4	42.9	45.9	44.0	3.56	-1.81
Empl. Cost/ Tot. Exp. %	42.2	40.1	39.8	43.9	43.5	43.4	35.6	-4.21	-7.82
Other Exp/Tot. Exp.%	57.8	59.9	60.2	56.1	56.5	56.6	64.4	4.21	7.82
Provision/PPP %	23.0	25.7	26.8	32.9	31.2	26.3	134.4	107.56	108.14
Tax Rate %	26.3	21.9	29.1	21.2	18.9	15.4	17.3	-11.79	1.96
Int Exp./Int Inc. (%)	57.0	56.7	57.3	59.5	60.3	59.7	59.7	2.45	0.00
Other Inc./Net Inc. %	22.9	22.3	25.9	28.1	32.1	25.0	29.9	4.06	4.95
PAT/ Net Income %	32.5	33.1	30.9	32.0	31.9	33.8	(15.9)	-46.77	-49.69
PAT Growth %	16.0	15.1	15.1	14.8	15.2	8.0	(154.4)	-169.53	-162.46
NII Growth % (YoY)	12.2	14.5	14.3	11.2	3.4	2.2	(0.3)	-14.57	-2.46
Op. Profit Growth YoY %	(7.5)	3.5	14.8	17.4	17.1	0.5	(0.8)	-15.58	-1.31
RoE %	15.2	15.6	15.1	15.2	15.2	14.6	(7.2)	-22.28	-21.80
RoA %	1.6	1.7	1.6	1.6	1.6	1.6	(0.8)	-2.40	-2.34

Margin Performance

MARGIN %	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.9	11.0	11.1	11.0	10.8	10.7	10.5	-0.61	-0.27
Global Yield on Investment	7.0	7.0	7.0	6.9	6.7	6.6	6.5	-0.42	-0.08
Yield on Total Assets %	8.9	9.1	9.2	9.0	8.7	8.7	8.4	-0.72	-0.24
Cost of Deposits %	6.1	6.2	6.3	6.3	6.3	6.2	6.1	-0.20	-0.10
Cost Of Funds	5.1	5.2	5.2	5.4	5.2	5.2	5.0	-0.21	-0.15
NIM	4.3	4.4	4.4	4.1	3.9	4.0	3.9	-0.49	-0.05

Exhibit: Yield and Cost

cost of deposit decreased

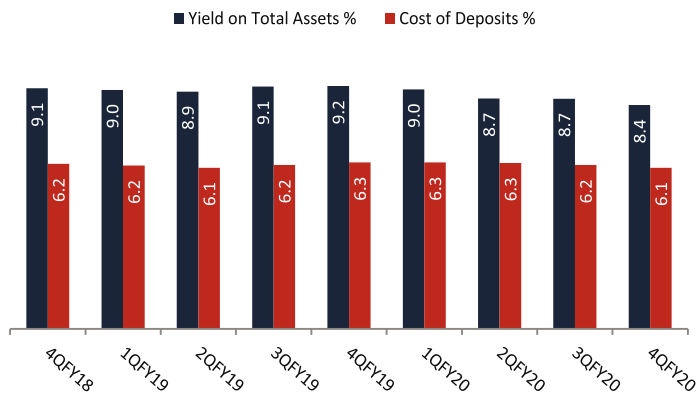
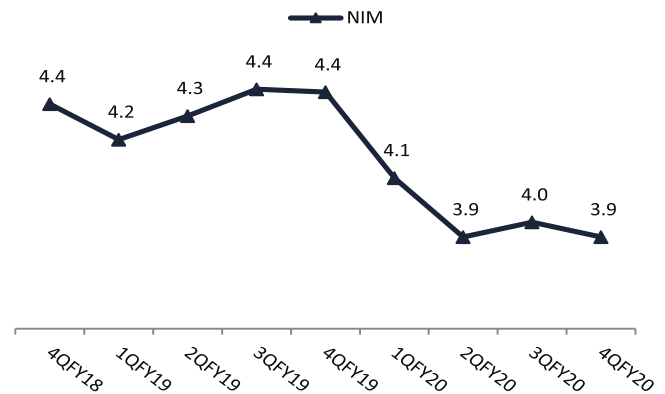


Exhibit: Net Interest Margin

NIM decreased



Other Income Break Up-

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Commission, Exchange, Brokerage	76	69	71	78	80	76	75	78
Total Fee-Based Income	76	69	71	78	80	76	75	78
Growth YoY %	9%	20%	16%	14%	5%	10%	11%	0%
Treasury Income	19	21	21	26	45	79	42	79
Other Inc incl recoveries in written off a/cs	34	28	28	44	39	40	26	23
Other Income	120	129	119	120	147	163	195	142
Growth YoY %	-5%	-24%	-2%	23%	26%	65%	19%	22%

Exhibit: Fee Income/Advances %

Fee income as a % of total advances remained stable.

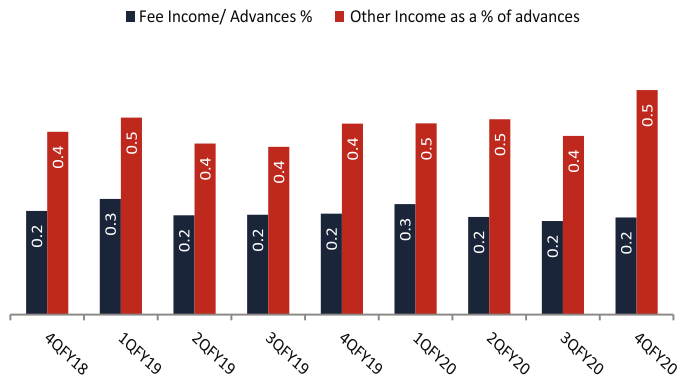
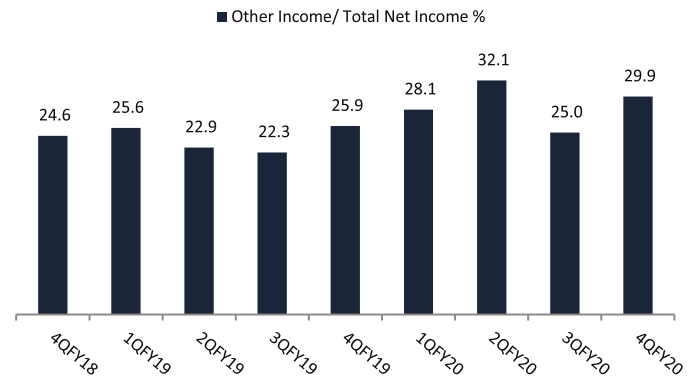


Exhibit: Other Income/ Total Income %

Other income as % of total income increased



Asset Quality

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	848	892	977	1,076	1,135	1,185	1,413	45%	19%
GNPA %	2.9	2.9	3.0	3.3	3.4	3.5	4.1	1.14	0.59
NNPA (Rs in Cr)	498	528	591	600	647	649	778	32%	20%
NNPA %	1.7	1.7	1.8	1.9	1.9	2.0	2.3	0.48	0.34
Slippages (Rs in Cr)	136	166	204	200	200	230	481	135%	109%
PCR %	61.8	65.0	63.0	65.0	65.0	65.0	65.0	2.00	0.00

Exhibit: Asset Quality

Assets Quality was impacted.

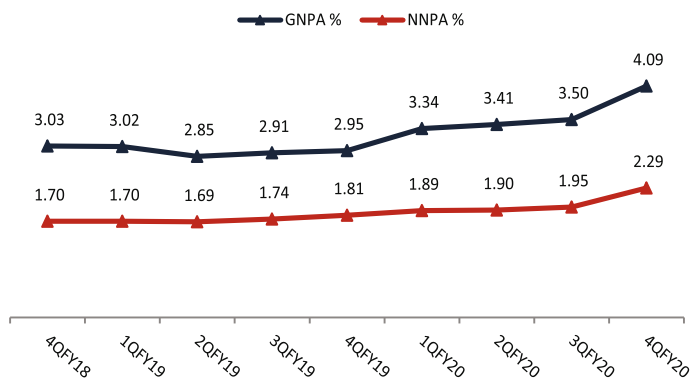


Exhibit: Provisions

PCR stable

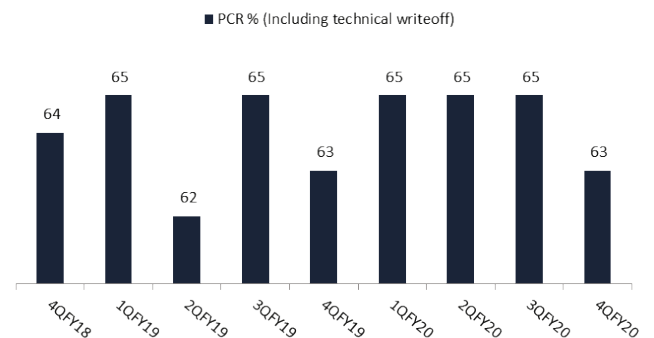


Exhibit: Advances Performance

Advances growth decreased

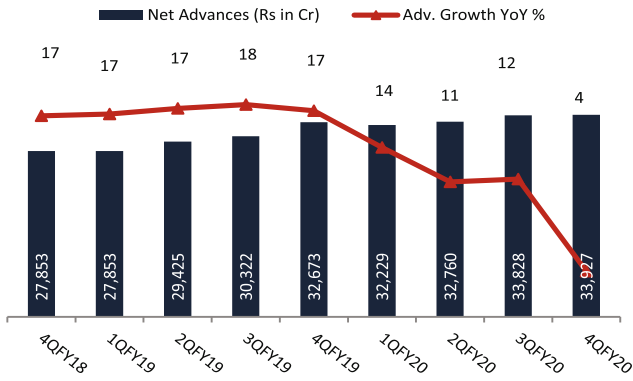


Exhibit: Advances Breakup%

Portfolio has slightly tilted towards retail profile.

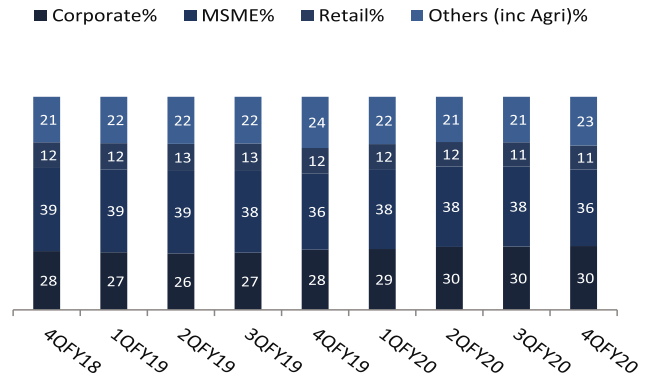


Exhibit: Deposits Performance

deposit growth moderated

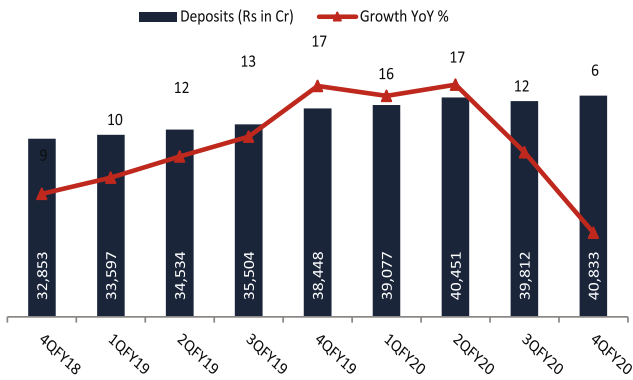


Exhibit: CASA Performance

Casa growth slowed

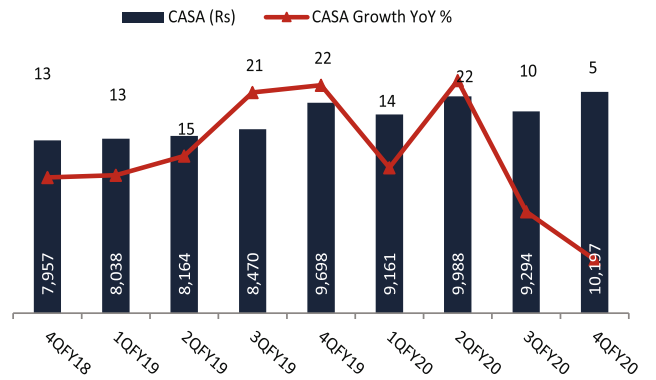


Exhibit: Credit Deposit Ratio

CD ratio increases

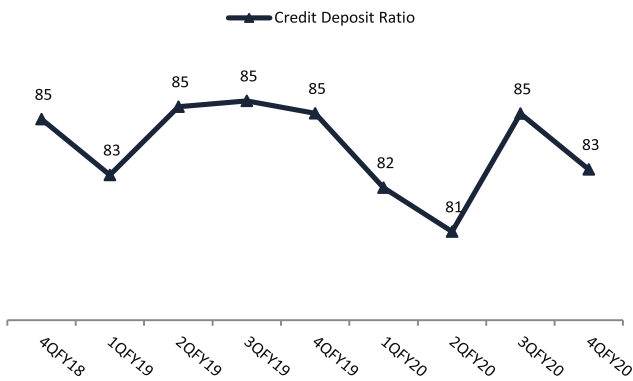
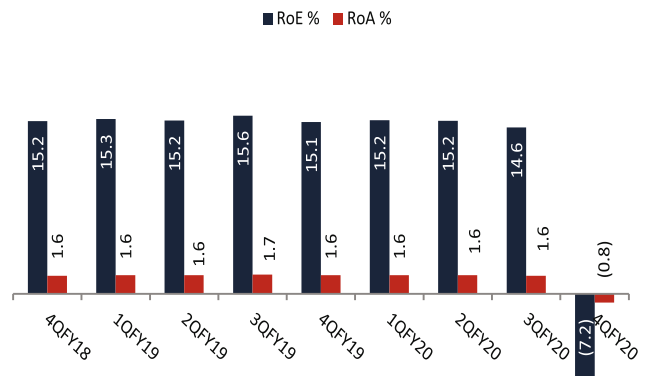


Exhibit: Return Ratios.

Return ratios fell



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	54	60	60	60	66	73	74	74
Equity Capital	54	60	60	60	66	73	74	74
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1971	2636	2992	3510	4097	4767	5222	5542
Networth	2025	2696	3052	3570	4163	4841	5369	5615
Deposits	22017	24075	27158	30116	32853	38448	40833	43980
Change (%)	8.4	9.3	12.8	10.9	9.1	17.0	6.2	7.7
CASA Deposits	3917	4631	5533	7039	7957	9698	10197	10995
Change (%)	15.1	18.2	19.5	27.2	13.0	21.9	5.1	7.8
Borrowings	305	169	664	531	1736	481	2032	1372
Other Liabilities & Prov.	647	932	929	1054	1186	1489	1573	1625
Total Liabilities	24994	27871	31804	35271	39937	45259	49734	52593
Cash & Bank	2180	2537	2650	2879	2636	2963	4722	4946
Investments	5954	6365	6826	7031	7879	7712	9117	9944
Change (%)	13.0	6.9	7.2	3.0	12.1	-2.1	18.2	9.1
Advances	16097	17966	21057	23833	27853	32673	33927	35624
Change (%)	5.6	11.6	17.2	13.2	16.9	17.3	3.8	5.0
Fixed Assets	183	210	218	215	223	250	245	253
Other Assets	581	793	1053	1313	1346	1660	1722	1827
Total Assets	24994	27871	31804	35271	39937	45259	49734	52593

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Interest income	2546	2699	2944	3174	3402	3767	4169	4258
Interest expended	1787	1891	1963	1975	1972	2156	2493	2604
Net Interest Income	759	807	981	1199	1430	1611	1675	1654
Change (%)	21.7	6.3	21.5	22.2	19.3	12.7	4.0	-1.2
Other Income	301	404	410	484	532	514	680	540
Change (%)	10.1	34.2	1.5	18.0	10.0	-3.3	32.2	-20.6
Core Fee Income	174	197	211	218	256	294	308	332
Treasury Income	56	129	126	206	168	87	244	78
Others	71	78	73	61	108	134	128	130
Total Net Income	1061	1211	1391	1683	1962	2126	2355	2195
Operating Expenses	480	519	558	689	755	886	1014	988
Change (%)	28.2	8.2	7.5	23.5	9.5	17.4	14.4	-2.6
Employee Expenses	186	210	213	298	316	364	421	417
Pre-provisioning Profit	581	693	833	994	1208	1240	1341	1207
Change (%)	11.0	19.2	20.3	19.3	21.5	2.7	8.2	-10.0
Provisions	167	183	231	301	418	315	755	892
Change (%)	39.0	9.0	26.3	30.5	38.8	-24.6	139.6	18.1
PBT	414	521	603	693	790	925	586	315
Tax	67	126	158	190	198	242	110	69
Profit After Tax	347	395	445	503	592	683	476	246
Change (%)	7.8	13.8	12.6	13.1	17.7	15.3	-30.2	-48.4

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	4	5
Deposit Growth (%)	8	9	13	11	9	17	6	8
C/D Ratio (%)	73.1	74.6	77.5	79.1	84.8	85.0	83.1	81.0
CASA (%)	17.8	19.2	20.4	23.4	24.2	25.2	25.0	25.0
Investment/Deposit (%)	27.0	26.4	25.1	23.3	24.0	20.1	22.3	22.6
CRAR (%)	15.0	16.5	15.6	15.8	16.2	15.6	15.7	15.5
Tier 1 (%)	14.4	16.0	15.1	15.4	15.8	15.0	15.3	15.1
Tier 2 (%)	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.4

Assets Quality Metrics

Gross NPA (Rs)	293	336	512	682	857	977	1,413	2,151
Gross NPA (%)	1.8	1.9	2.4	2.8	3.0	3.0	4.1	5.9
Net NPA(Rs)	197	233	323	408	475	591	778	1,183
Net NPA (%)	1.2	1.3	1.5	1.7	1.7	1.8	2.3	3.3
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	2.3	2.6

Margin Metrics

Yield On Advances (%)	13.3	12.7	12.1	11.5	11.0	10.5	10.5	10.3
Yield On Investment (%)	7.8	8.4	8.2	7.8	7.0	7.1	7.2	6.4
Yield on Earning Assets (%)	11.3	10.8	10.5	10.0	9.6	9.4	9.4	8.9
Cost Of Deposits (%)	8.2	8.0	7.5	6.8	6.1	5.9	6.1	6.0
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	3.4	3.1
NIM (%)	3.4	3.2	3.5	3.8	4.0	4.0	3.8	3.5

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	70.2	70.1	66.7	62.2	58.0	57.2	59.8	61.1
Fee Income/NII (%)	-	-	-	18.2	17.9	18.2	18.4	20.1
Cost to Income (%)	45.2	42.8	40.1	40.9	38.5	41.7	43.0	45.0
Cost on Average Assets (%)	2.0	2.0	1.9	2.1	2.0	2.1	2.1	1.9
Tax Rate (%)	16.1	24.2	26.2	27.4	25.1	26.2	18.8	22.0

Valuation Ratio Metrics

EPS (Rs)	5.3	5.5	6.2	7.0	8.2	9.3	6.5	3.4
Change (%)	7.0	3.5	12.6	13.1	17.0	15	(30)	(48.4)
ROAE (%)	18.9	16.3	15.5	15.2	15.3	15.2	9.3	4.5
ROAA (%)	1.4	1.5	1.5	1.5	1.6	1.6	1.0	0.5
Dividend Payout (%)	15.6	16.6	16.1	3.9	3.7	5.4	-	-
Dividend yield (%)	2.2	1.4	1.5	0.2	0.2	0.2	-	-
Book Value (Rs)	30.8	37.3	42.3	49.5	57.3	66.1	72.8	76.2
Change (%)	23	21	13	17	16	15	10	5
P/B (X)	1.4	2.1	1.9	2.5	2.7	3.1	1.9	1.8
P/E (X)	8.4	14.6	12.7	17.9	19.2	21.8	21.0	40.7

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Interest Income	10.2	9.9	9.5	9.0	8.8	8.8	8.3
Interest expended	7.2	6.6	5.9	5.2	5.1	5.2	5.1
Net Interest Income	3.1	3.3	3.6	3.8	3.8	3.5	3.2
Non-Fund Based Income	1.5	1.4	1.4	1.4	1.2	1.4	1.1
Core Fee Income	0.7	0.7	0.6	0.7	0.7	0.6	0.6
Trading and Other Income	0.8	0.7	0.8	0.7	0.5	0.8	0.4
Core Operating Income	3.8	4.0	4.2	4.5	4.5	4.2	3.9
Total Income	4.6	4.7	5.0	5.2	5.0	5.0	4.3
Total Operating Expenses	2.0	1.9	2.1	2.0	2.1	2.1	1.9
Employee Expenses	0.8	0.7	0.9	0.8	0.9	0.9	0.8
Other Expenses	1.2	1.2	1.2	1.2	1.2	1.2	1.1
Operating Profit	2.6	2.8	3.0	3.2	2.9	2.8	2.4
Provisions	0.7	0.8	0.9	1.1	0.7	1.6	1.7
Others	0.0	-	-	-	-	-	-
PBT	1.9	2.0	2.1	2.1	2.2	1.2	0.6
Tax	0.5	0.5	0.6	0.5	0.6	0.2	0.1
PAT/RoAA	1.5	1.5	1.5	1.6	1.6	1.0	0.5
Equity Multiplier (x)	11.2	10.4	10.1	9.7	9.5	9.3	9.3
ROAE	16.3	15.5	15.2	15.3	15.2	9.3	4.5

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Disclosure of Interest Statement-

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