

Largely status quo, Upgrade to BUY

- CUBK reported muted NII growth at 2.4% YoY led by weaker NIM which was impacted by increased share of lower yielding ECLGS/gold (8.5-9% yields) disbursements along with excess liquidity. Higher operating profits and PAT was owing to elevated treasury gains and better core fee income.
- Asset quality metrics were in line with slippages at 5.3%, restructured book at 5.5% of advances (from 5% in 4Q) and SMA-2 ratio (including accounts <Rs50mn exposure) at 3.2%.** SMA-2 ratio does partly benefit from high regulatory forbearance.
- Management maintained its earlier guidance** of RoA normalization by H2 FY23E, with FY22E slippages likely to remain at par with or slightly below FY21 levels as per management. Growth guidance was also maintained at mid to high single digit for FY22E.
- PCR levels continued to moderate to 39%, with standard provision buffers at Rs2bn of 0.6% of advances.** ECLGS disbursements were at Rs19.5bn or 5.4% of advances. There is an overlap of Rs5bn or 1.4% of loans between restructured loans and advances with additional ECLGS.
- With healthy 22% YoY growth in CASA deposits, cost of deposits continued to decline QoQ by 10 bps. Sequential growth was mostly led by gold loans, which was up by 6% QoQ, implying that caution on lending continues.
- We factor in lower NIM for FY22E, some of which is offset by higher other income. Bank's healthy core operating metrics, historically high ultimate recoveries and low slippages from the restructured pool, continue to provide comfort. Post recent correction in price, the stock is trading at an attractive valuation of 1.8x FY23E against normalized RoA of 1.5-1.6%. **Maintaining our TP of Rs200, we upgrade to BUY from Accumulate, valuing the bank at 2.4x Mar-23 P/ABV.**

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net interest income	4,476	4,370	2.4	4,285	4.5
Other income	1,957	1,606	21.8	1,451	34.9
Total Net Income	6,432	5,976	7.6	5,736	12.1
Operating expenses	2,602	2,415	7.7	2,889	(9.9)
Pre-provision profits	3,830	3,560	7.6	2,847	34.5
Provisions	1,700	1,570	8.3	2,385	(28.7)
Tax expense	400	450	(11.1)	(650)	(161.5)
Reported Net Profit	1,730	1,540	12.3	1,112	55.6
			(bps)		(bps)
Advances Growth YoY(%)	5.8	7.7	(185)	5.3	47
NIM (%)	3.9	4.0	(12)	3.7	14
RoA (%)	1.3	1.2	6	0.8	45
RoE (%)	11.8	11.7	16	7.9	396
Gross NPA (%)	5.6	3.9	169	5.1	48

CMP	Rs 153
Target / Upside	Rs 200 / 31%
NIFTY	16,238

Scrip Details

Equity / FV	Rs 739mn / Rs 1
Market Cap	Rs 113bn
	USD 2bn
52-week High/Low	Rs 200/ 117
Avg. Volume (no)	2,194,980
Bloom Code	CUBK IN
Price Performance	1M 3M 12M
Absolute (%)	(7) (10) 25
Rel to NIFTY (%)	(9) (21) (18)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	0.0	0.0	0.0
MF/Banks/FIs	27.5	37.6	41.7
FIs	18.7	18.7	17.2
Public / Others	53.8	43.8	41.2

Valuation (x)

	FY21A	FY22E	FY23E
P/E	19.1	17.1	13.0
P/ABV	2.4	2.2	1.8
ROAA	1.2	1.2	1.4
ROAE	10.6	10.8	12.8

Estimates (Rs mn)

	FY21A	FY22E	FY23E
NII	18,297	19,599	22,767
PPOP	14,838	14,911	17,807
PAT	5,928	6,609	8,698
Adj BV	64.5	71.2	83.2

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Risks to the View: Tail risks from a large ECLGS book, risks from future lockdowns, weaker than expected recovery trends, continued challenges for the MSME sector.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance
NII	4,476	4,905	(8.8)
Operating Profit	3,830	3,605	6.2
PAT	1,730	1,488	16.3

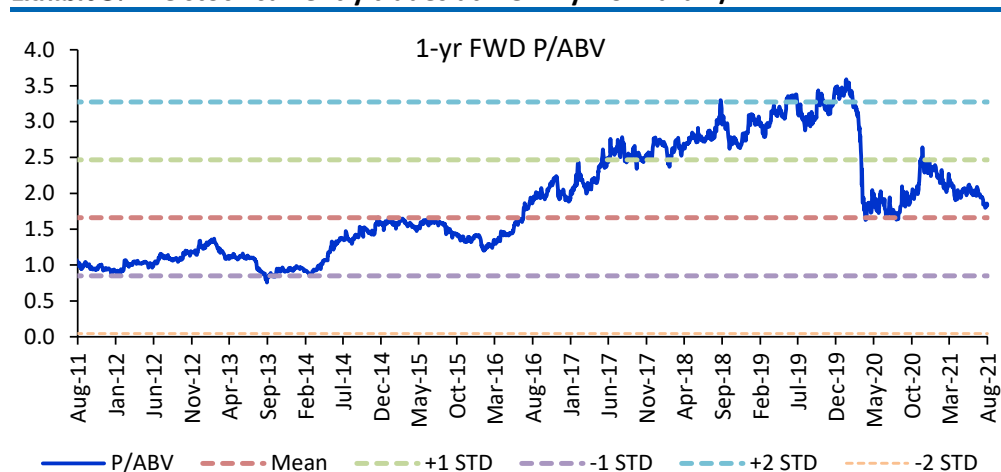
Source: Company, DART

Exhibit 2: Change in Estimates

(Rs mn)	Previous		Revised		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Oper. Revenues	27,187	30,061	26,338	30,479	(3.1)	1.4
Pre Provision Profits	15,702	17,324	14,911	17,807	(5.0)	2.8
PAT	6,757	8,323	6,609	8,698	(2.2)	4.5

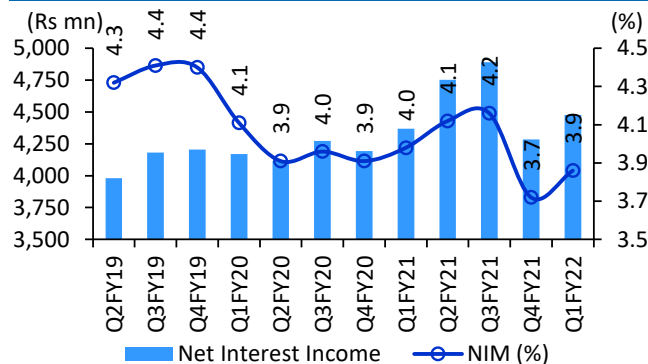
Source: Company, DART

Exhibit 3: The stock currently trades at 1.8x 1-yr forward P/ABV



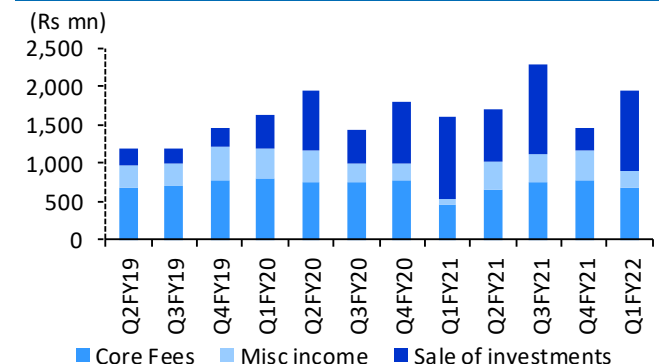
Source: Company, DART

Exhibit 4: Margins impacted by high share of low yielding gold loans & high liquidity



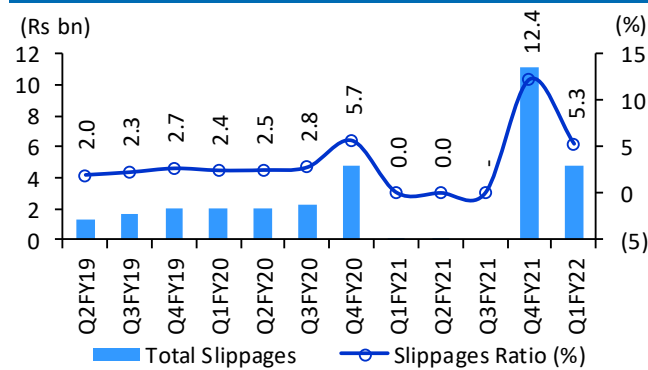
Source: Company, DART

Exhibit 5: Other income supported by treasury gains and higher core fee



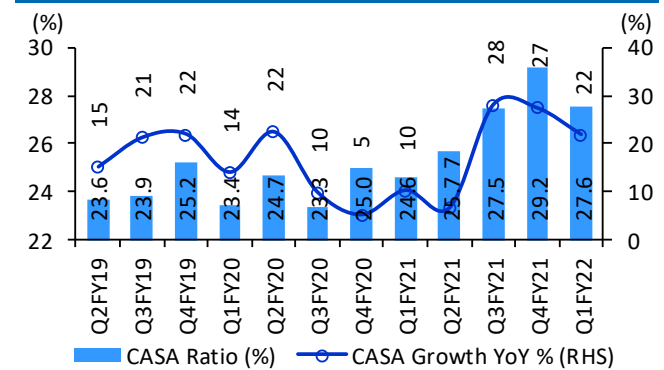
Source: Company, DART

Exhibit 6: High slippages due to up-fronting of stress in Q1



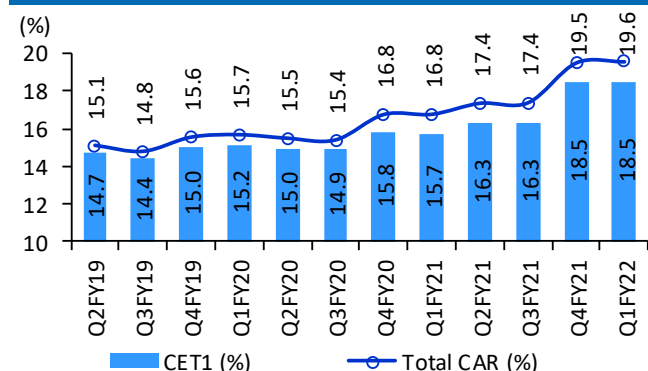
Source: Company, DART

Exhibit 7: Healthy growth in low cost liabilities



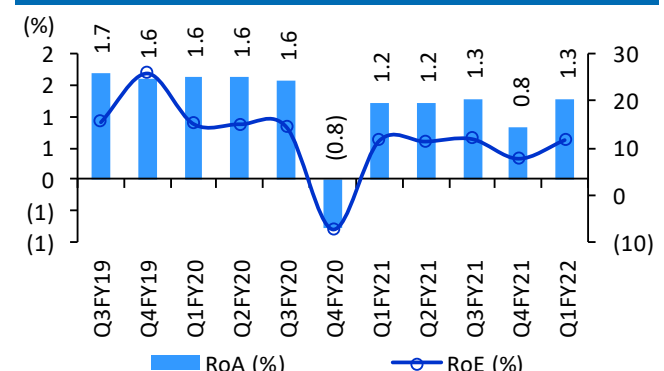
Source: Company, DART

Exhibit 8: Capital position stronger owing to higher share of gold loans



Source: Company, DART

Exhibit 9: Return ratio normalization to be slow



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q1FY22	Q1FY21	% yoy / bps	Q4FY21	% qoq / bps	FY21	FY20	% yoy / bps
Interest Inc. / Oper. Revenue	9,974	10,494	(4.9)	9,763	2.2	41,347	41,686	(0.8)
Yield on Advances (%)	9.4	10.4	(101)	9.2	21	9.9	10.7	(82)
Interest Expenses	5,498	6,124	(10.2)	5,478	0.4	23,050	24,934	(7.6)
Cost of Fund (%)	4.1	4.9	(81)	4.2	(6)	4.5	5.2	(74)
Net Interest Income	4,476	4,370	2.4	4,285	4.5	18,297	16,752	9.2
NIM (%)	3.9	4.0	(12)	3.7	14	4.0	4.0	3
Commission, exchange & brokerage	680	456	49.1	768	(11.5)	2,616	3,075	(14.9)
Sale of investments	1,052	1,085	(3.0)	296	255.4	3,254	2,443	33.2
Misc. income	224	65	244.6	387	(42.1)	1,178	1,281	(8.0)
Other Income - Total	1,957	1,606	21.8	1,451	34.9	7,048	6,799	3.7
Net Operating Revenue	6,432	5,976	7.6	5,736	12.1	25,344	23,551	7.6
Employee Expenses	1,293	1,164	11.0	1,072	20.5	4,637	4,207	10.2
Other Opex	1,310	1,251	4.7	1,817	(27.9)	5,869	5,931	(1.0)
Total Opex	2,602	2,415	7.7	2,889	(9.9)	10,506	10,137	3.6
Cost to Income Ratio (%)	40.5	40.4	4	50.4	(991)	41.5	43.0	(159)
Pre Provision Profits	3,830	3,560	7.6	2,847	34.5	14,838	13,414	10.6
Provisions & Contingencies - Total	1,700	1,570	8.3	2,385	(28.7)	7,910	7,551	4.8
Profit Before Tax	2,130	1,990	7.0	462	361.2	6,928	5,863	18.2
Tax	400	450	(11.1)	(650)	(161.5)	1,000	1,101	(9.2)
Effective Tax Rate (%)	18.8	22.6	(383)	(140.7)	15,951.3	14.4	18.8	(435)
Reported Profits	1,730	1,540	12.3	1,112	55.6	5,928	4,762	24.5
RoA (%)	1.3	1.2	6	0.8	45.0	1.2	1.0	14
RoE (%)	11.8	11.7	16	7.9	396	10.7	9.4	129
Basic EPS	2.3	2.1	12.0	1.5	55.0	8.0	6.5	23.9

Source: Company, DART

Balance Sheet Analysis	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ % / bps	YoY % / bps
RoE (%)	11.7	11.5	12.0	7.9	11.8	396	16
Tier 1 (%)	15.7	16.3	16.3	18.5	18.5	0	18
Total CAR (%)	16.8	17.4	17.4	19.5	19.6	0	17
Advances - Total	345,356	348,248	359,188	361,578	363,955	0.7	5.4
Investments	97,285	107,025	94,845	94,359	101,300	7.4	4.1
RoA (%)	1.23	1.23	1.29	0.84	1.29	54	5
Deposits	410,259	414,206	432,883	445,374	446,059	0.2	8.7
CASA Deposits	100,976	106,446	118,984	129,814	122,991	(5.3)	21.8
CASA Ratio (%)	24.6	25.7	27.5	29.2	27.6	(5)	12
Term Deposits	309,283	307,760	313,899	315,560	323,068	2.4	4.5

Source: Company, DART

Movement of NPA (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ % / bps	YoY % / bps
Gross Advances	345,150	354,820	364,519	370,488	364,106	(1.7)	5.5
Gross NPA	13,461	12,206	10,717	18,932	20,353	7.5	51.2
Gross NPA Ratio (%)	3.90	3.44	2.94	5.11	5.59	48	169
PCR - Calculated (%)	46.8	48.3	50.8	43.2	39.0	(424)	(781)
PCR - Inc. Tech w/o (%)	68.00	70.00	73.00	64.00	63.00	(100)	(500)
Net Advances	339,504	348,862	358,609	362,018	355,924	(1.7)	4.8
Net NPA	7,164	6,314	5,272	10,752	12,422	15.5	73.4
Net NPA Ratio (%)	2.11	1.81	1.47	2.97	3.49	52	138

Source: Company, DART

Loan Book Analysis (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ % / bps	YoY % / bps
Corporate	56,166	54,335	51,276	49,798	47,177	(5.3)	(16.0)
SME/BB	163,143	175,626	178,942	186,875	178,786	(4.3)	9.6
Retail	71,722	84,350	93,657	85,363	88,028	3.1	22.7
Agriculture	54,325	40,057	41,162	48,169	49,964	3.7	(8.0)
Breakup of Gross Loans							
- MSME	110,298	123,000	127,309	134,474	126,474	(5.9)	14.7
- Wholesale Traders	45,042	46,098	45,997	46,574	44,827	(3.8)	(0.5)
- Agriculture	54,325	40,057	41,162	48,169	49,964	3.7	(8.0)
- JL Non Agriculture	8,211	22,081	29,769	34,601	36,038	4.2	338.9
- Others (Educational, Staff)	25,621	25,416	28,432	16,358	17,048	4.2	(33.5)
- Commercial Real Estate	28,210	27,210	26,385	25,360	23,200	(8.5)	(17.8)
- Housing Loans	22,857	22,425	21,741	21,020	20,421	(2.8)	(10.7)
- Large Industries	21,784	20,527	18,732	18,784	18,394	(2.1)	(15.6)
- Other Personal Loans	9,860	9,400	8,803	8,029	9,535	18.8	(3.3)
- Retail Traders	7,803	6,528	5,636	5,827	7,485	28.5	(4.1)
- Loans collateralized by Deposits	5,173	5,028	4,912	5,355	4,986	(6.9)	(3.6)
- Infrastructure	3,687	3,567	3,297	3,136	3,165	0.9	(14.2)
- NBFC	2,485	3,031	2,862	2,518	2,418	(4.0)	(2.7)
Net Advances	345,356	348,248	359,188	361,578	363,955	0.7	5.4

Source: Company, DART

Conference Call Highlights

- Growth was mostly driven by gold loans. Will push for further growth once the economic environment stabilizes
- While treasury income is expected to be lower in FY22, recoveries from w/offs are expected to give a boost to overall other income for the year. C/I ratio is expected to fluctuate in the short term.
- High liquidity and low CD ratio impacting margins. Expect NIM to be range bound at 3.1% - 3.4% levels.
- Lower overall yields can be attributed to high growth from gold loans (@ ~8.5-9% yields). Cost of deposits may see additional ~15-20bps reduction due to lagged effect.
- The bank maintained its guidance for achieving 1.5% RoA by FY23 end
- Lower capital utilization has aided overall capital adequacy levels.
- Interest reversals for the quarter stood at Rs 200mn
- Bank expects ~Rs 20-25bn of incremental gold loan disbursements in the year
- NPAs were frontloaded and expect moderation. FY22-end slippages are expected to be at similar levels as FY21, however frontloading of stress could lead to higher slippages ratio in the interim.
- Recoveries expected to improve in 2HFY22 leading to better NPA levels.
- Restructuring breakup (total Rs 19.8bn)– MSME Rs 12.63bn, Non-MSME Rs 218mn and Covid-19 restructuring Rs 6.99bn.
- Slippages from this pool has been minimal and repayments have started. The bank does not expect incremental stress from this pool. Large proportion of restructuring is skewed towards the services sector.
- Management expects ~1-1.25% of additional restructuring
- SMA2 at 3.16% as of June'21 and seems to be stabilizing at ~3.2% - 3.5% levels. Improved repayment discipline indicative of SMA levels reverting to pre-COVID levels
- No slippages from ECLGS. Disbursements stood at Rs 19.5bn
- The bank holds ~Rs 550-600mn of excess provisions excluding that on restructured accounts.

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21A	FY22E	FY23E
Interest Income	41,686	41,347	44,376	50,554
Interest expenses	24,934	23,050	24,777	27,787
Net interest income	16,752	18,297	19,599	22,767
Other incomes	6,799	7,048	6,739	7,712
Total expenses	10,137	10,506	11,427	12,672
- Employee cost	4,207	4,637	5,147	5,765
- Other	5,931	5,869	6,280	6,908
Pre provisioning profit	13,414	14,838	14,911	17,807
Provisions	7,551	7,910	6,649	6,935
Profit before taxes	5,863	6,928	8,262	10,872
Tax provision	1,101	1,000	1,652	2,174
Profit after tax	4,762	5,928	6,609	8,698
Adjusted profit	4,762	5,928	6,609	8,698

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	737	739	739	739
Reserves & Surplus	52,223	57,686	63,406	71,214
Minority Interest	0	0	0	0
Net worth	52,961	58,425	64,144	71,952
Borrowings	20,324	13,457	12,208	13,726
- Deposits	408,325	445,374	476,125	535,303
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	15,726	15,861	16,204	16,043
Total Liabilities	497,335	533,117	568,682	637,025
Application of Funds				
Cash and balances with RBI	47,216	56,151	49,437	44,917
Investments	91,168	94,359	103,870	116,292
Advances	339,274	361,578	390,505	445,175
Fixed assets	2,452	2,327	2,429	2,588
Other current assets, loans and advances	17,225	18,702	22,442	28,052
Total Assets	497,335	533,117	568,682	637,025

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Yield on advances	10.5	10.0	10.0	10.3
Yields on interest earning assets	9.2	8.4	8.4	8.8
Yield on investments	7.4		(4.4)	7.1
Costs of funds	6.1	5.2	5.2	5.4
Cost of deposits	9.4	15.6	(8.3)	8.5
NIMs	3.7	3.7	3.7	4.0
(B) Asset quality and capital ratios (%)				
GNPA	4.1	5.1	5.0	4.3
NNPA	2.3	3.0	2.9	2.3
PCR	44.9	43.2	43.0	47.0
Slippages	3.4	3.3	3.1	2.5
NNPA to NW	14.7	18.4	17.9	14.5
CASA	25.0	29.1	25.5	25.5
CAR	16.8	19.6	18.9	18.1
Tier 1	15.8	18.5	18.0	17.3
Credit - Deposit	83.1	81.2	82.0	83.2
(C) Dupont as a percentage of average assets				
Interest income	8.8	8.0	8.1	8.4
Interest expenses	5.2	4.5	4.5	4.6
Net interest income	3.5	3.6	3.6	3.8
Non interest Income	1.4	1.4	1.2	1.3
Total expenses	2.1	2.0	2.1	2.1
- cost to income	43.0	41.5	43.4	41.6
Provisions	1.6	1.5	1.2	1.2
Tax	0.2	0.2	0.3	0.4
RoA	1.0	1.2	1.2	1.4
Leverage	9.4	9.1	8.9	8.9
RoE	9.4	10.6	10.8	12.8
RoRwa	0.0	0.0	0.0	0.0
(D) Measures of Investments				
EPS - adjusted	6.5	8.0	8.9	11.8
BV	71.8	79.1	86.8	97.4
ABV	61.3	64.5	71.2	83.2
DPS	1.0	1.0	1.0	1.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	4.0	9.2	7.1	16.2
PPoP	8.2	10.6	0.5	19.4
Adj PAT	(30.3)	24.5	11.5	31.6
Advances	3.8	6.6	8.0	14.0
Total borrowings	322.6	(33.8)	(9.3)	12.4
Total assets	9.9	7.2	6.7	12.0
(F) Valuation Ratios				
Market Cap (Rs. mn)	113,188	113,188	113,188	113,188
CMP (Rs.)	153	153	153	153
P/E (x)	23.7	19.1	17.1	13.0
P/BV (x)	2.1	1.9	1.8	1.6
P/ABV (x)	2.5	2.4	2.2	1.8
Div Yield (%)	0.7	0.7	0.7	0.7

E – Estimates

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