

City Union Bank

Turnaround underway on multiple fronts

We had been structurally cautious on City Union Bank since we assumed coverage in [June 2021](#) but we had upgraded to BUY for the first time in [Feb 2024](#). In this report, we take a closer look at the bank and feel confident regarding our upgrade due to the following key reasons: (1) Importantly, loan growth is set for a turnaround, driven by certain underlying factors, including (a) The “digital lending” initiative, to be begin with (b) Furthermore, the announcement of the new sales vertical heralds a change in narrative for growth strategy, over and above digital lending (c) It may further be noted that the rundown of the KCC book is complete and (d) Lastly, CUB is also exploring co-lending tie-ups with NBFCs (2) While NPL cycle was extended for CUB, the same seems to have ended, along with strong recovery performance (3) While margin has eroded over time, we find guidance for stable margin believable.

Importantly, loan growth is set for a turnaround, driven by underlying factors, including the “digital lending” initiative, to be begin with

Digital lending at CUB has 4 key aspects to it: (a) Reduction of turnaround time (b) Improvement of under-writing confidence (c) Coverage of more segments (d) Digital initiative has succeeded at a rival bank before viz. Karur Vysya Bank. All these factors make us believe digital lending could succeed in enhancing overall growth for CUB. We have a section in the report body elaborating on this subject, as we do for other aspects.

Furthermore, the announcement of the new sales vertical heralds a change in narrative for growth strategy, over and above digital lending

For the first time in several years, CUB has shown seriousness regarding retail lending. Setting up a new sales vertical to focus on core advances is symptomatic of this seriousness. While this has led to a near-term spike in operating cost, it will be positive for retail loan growth and hence, for overall loan growth. The sales vertical will focus on secured retail segments such as home loans and LAP to begin with and then nibble into unsecured retail in a risk-calibrated manner.

It may further be noted that the rundown of the KCC book is complete and CUB is also exploring co-lending tie-ups with NBFCs

CUB is not comfortable with the KCC business and had decided to completely run off this book. This book has run off and while CUB does not plan to pursue this business at this point in time, the drag from its de-growth is behind us. On a separate note, the bank has been in talks with some NBFCs which are focused on secured lending, mainly in the areas of vehicle finance and gold loans and, to some extent, housing loans. These NBFCs have a complementary customer set from a geographical perspective, since they operate outside Tamil Nadu.

While NPL cycle was extended for CUB, the same seems to have ended, along with strong recovery performance

CUB's NPL cycle extended well beyond the end of the pandemic as small-ticket MSME had received a body blow from Covid. With a bloated restructured book in excess of 5% of loan book (in FY22) and the ECLGS book proving to be contributing factors, CUB's NPL cycle extended all the way upto 1QFY24. However, in 2HFY24, the NPL cycle seems to have ended for the bank. Not only did gross slippage decline Rs 3bn YoY in FY24 to ~Rs 10bn, management has guided for a similar decline to Rs 7-8bn in FY25. Recoveries and upgrades have been strong at about Rs 80bn in both FY23 and FY24 and management has guided for further improvement in recoveries in FY25.

While margin has eroded over a period of time, we find guidance for stable margin largely believable

Management has guided for stable margin in FY25 plus or minus 10 bps. CUB has an LCR of 200% plus and there is no concern, as such, on the liquidity front. The CD ratio is 81-82% and management is comfortable with this level of CD ratio. There is no pressure on CUB from a CD ratio perspective. While it is true that that CUB has a relatively higher share of floating rate loans, the EBLR:MCLR ratio is relatively comfortable at 55:45. Hence, we do not foresee any major challenge emerging from the upcoming rate cut cycle which, in any case, is going to be relatively shallow at 50 bps worth of rate cuts.

Recommendation : **BUY**

CMP : Rs 151

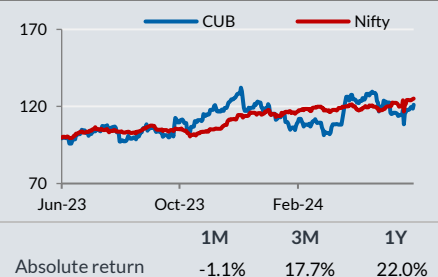
Target Price : Rs 185

Potential Return : +22%

Stock data (as on June 14, 2024)

Nifty	23,466
52 Week h/l (Rs)	168 / 120
Market cap (Rs/USD mn)	109819 / 1314
Outstanding Shares (mn)	741
6m Avg t/o (Rs mn):	639
Div yield (%):	0.6
Bloomberg code:	CUBK IN
NSE code:	CUB

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	0.0%
FII+DII	56.5%
Others	43.5%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	21,235	23,500	26,563
PPOP	15,167	15,903	17,856
Net Profit	10,157	10,235	11,445
Growth (%)	8.3	0.8	11.8
EPS (Rs)	13.7	13.8	15.5
BVPS (Rs)	113	126	141
P/E (x)	11.0	11.0	9.8
P/BV (x)	1.3	1.2	1.1
ROE (%)	12.8	11.5	11.6
ROA (%)	1.5	1.4	1.4
Tier-1 (%)	22.8	22.0	21.5

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N.B. Comparative charts compare the FY21, FY22, FY23 and FY24 metrics for our comparison universe of 14 Private banks

VALUATION TABLES

Exhibit 1: Valuation Table – Coverage Banks (Listed in the order of investment preference)

COMPANY	Rating	CMP	TP	Upside	EPS (Rs)			P/E (x)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E
Bank of Baroda	BUY	286	375	31	34.4	37.0	43.3	7.8	7.2	6.2
Indian Bank	BUY	541	700	29	59.9	70.8	83.0	9.0	7.6	6.5
Axis Bank	BUY	1181	1475	25	80.5	88.6	107.1	13.0	11.8	9.8
ICICI Bank	BUY	1106	1375	24	58.2	66.4	73.4	15.5	13.6	12.3
Federal Bank	BUY	174	215	23	15.3	18.0	21.6	10.5	8.9	7.4
State Bank of India	BUY	839	1030	23	68.4	73.9	88.0	8.5	7.9	6.6
City Union Bank	BUY	151	185	22	13.7	13.8	15.5	11.0	11.0	9.8
CSB Bank	BUY	343	415	21	32.7	35.3	42.0	10.5	9.7	8.2
HDFC Bank	ADD	1597	1900	19	80.0	89.7	110.5	17.3	15.4	12.5
Kotak M. Bank	ADD	1717	2025	18	69.3	68.9	81.4	15.3	15.4	13.0
Indusind Bank	ADD	1502	1735	15	115.0	127.7	150.4	13.1	11.8	10.0
RBL Bank	ADD	257	297	15	19.3	25.0	32.6	13.3	10.3	7.9
IDFC First Bank	ADD	78	90	15	4.2	5.4	7.5	18.7	14.3	10.4
DCB Bank	ADD	137	155	14	17.1	20.2	24.5	8.0	6.7	5.6

COMPANY	BVPS (Rs)			P/ BV (x)			ROE (%)			ROA (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Bank of Baroda	217	248	283	1.2	1.1	0.9	16.9	16.3	16.3	1.2	1.2	1.2
Indian Bank	433	490	557	1.2	1.1	1.0	15.2	15.3	15.9	1.1	1.1	1.2
Axis Bank	489	608	714	2.1	1.7	1.5	18.0	16.4	16.2	1.8	1.8	1.9
ICICI Bank	339	396	459	2.7	2.3	2.0	18.6	18.1	17.2	2.4	2.3	2.3
Federal Bank	119	136	157	1.3	1.2	1.0	14.7	14.1	14.8	1.3	1.3	1.3
State Bank of India	423	499	573	1.4	1.2	1.0	17.3	16.4	16.4	1.0	1.1	1.1
City Union Bank	113	126	141	1.3	1.2	1.1	12.8	11.5	11.6	1.5	1.4	1.4
CSB Bank	219	254	296	1.6	1.3	1.2	16.2	14.9	15.2	1.7	1.6	1.6
HDFC Bank	580	652	741	2.4	2.1	1.9	15.6	14.6	15.9	1.9	1.7	1.9
Kotak M. Bank	487	555	635	2.2	1.9	1.7	15.3	13.2	13.7	2.5	2.1	2.1
Indusind Bank	807	918	1,052	1.9	1.6	1.4	15.2	14.8	15.3	1.8	1.8	1.7
RBL Bank	245	277	305	1.1	0.9	0.8	8.2	9.6	11.2	0.9	1.0	1.1
IDFC First Bank	45	50	56	1.7	1.6	1.4	10.2	11.4	14.1	1.1	1.2	1.3
DCB Bank	162	180	203	0.8	0.8	0.7	11.1	11.8	12.8	0.9	0.9	0.9

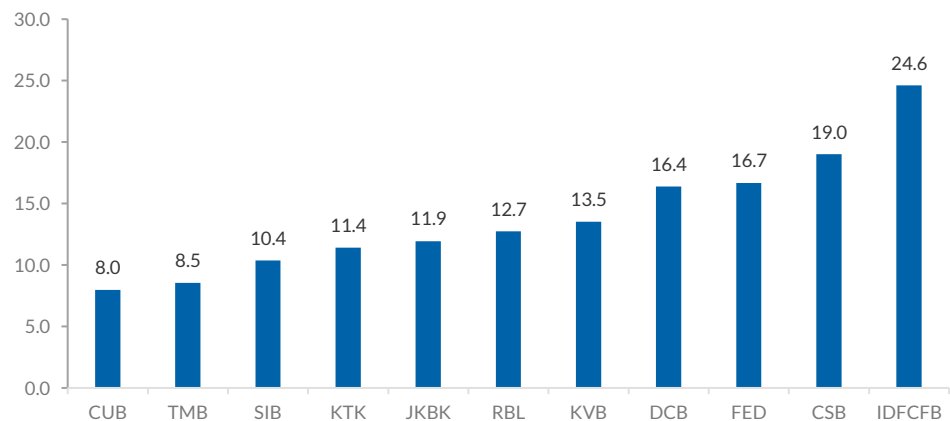
Source: Companies, YES Sec – Research; Valuations are the implied valuations of standalone entity net of subsidiaries

A recap of CUB's long-term growth performance shows that answering the growth question could lead to re-rating for the bank

CUB's loan growth outcomes have, admittedly, been inferior to other mid and smallcap banks

CUB's loan growth CAGR over FY21-24 has been 8.0%, which is the lowest in our comparison universe of mid and smallcap banks.

Exhibit 2: Loan Growth – FY21-24 CAGR - %

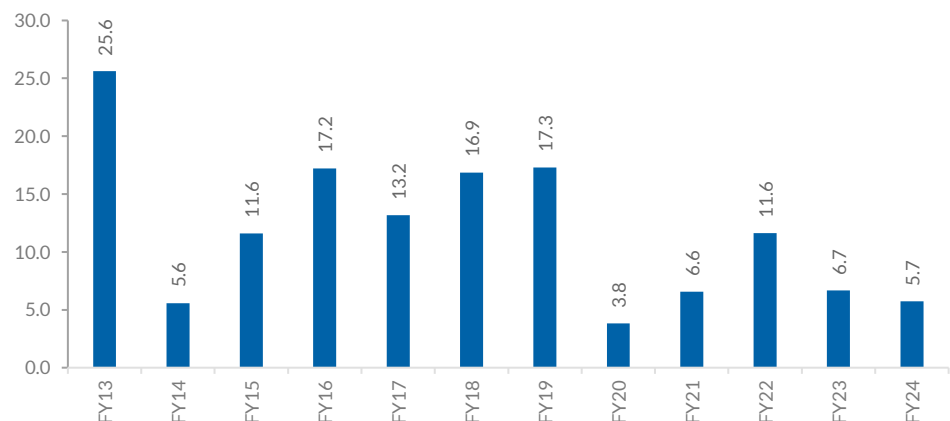


Source: Companies, YES Sec – Research

CUB has had half a decade of lacklustre growth, leaving little confidence in the investor community

After 4 relatively good years of growth over FY16-19, CUB has had 5 years of below par growth over FY20-24. This has led to lack of confidence in the investor community that CUB can deliver growth, which is a key reason behind CUB's long-term de-rating.

Exhibit 3: Net Advances YoY Growth – FY13 to FY24 - %



Source: Company, YES Sec – Research

CUB has seen a spurt of growth in the most recent quarter but it is too early to call it a victory

CUB has just delivered a strong quarter in terms of sequential growth in 4QFY24. However, it would be too early to say that CUB's turnaround strategy is working. There was a similar spike backed in 4QFY22 as well but it proved to be a false dawn back then.

Exhibit 4: Gross Advances QoQ Growth - 1QFY20 to 4QFY24 - %



Source: Company, YES Sec – Research

There is nothing perhaps in the delivered numbers but for the first time, there seems to be genuine change in underlying strategy

For the first time in several years, CUB management sounds serious about growth and has engaged in commentary that is genuinely encouraging. Not only has CUB outlined an encouraging digital strategy, the establishment of a new sales vertical is a material departure from past practices.

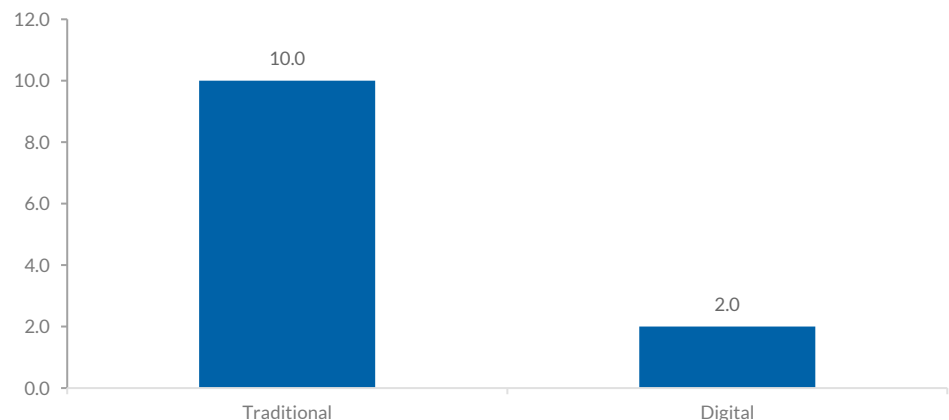
Importantly, loan growth is set for a turnaround, driven by underlying factors, including the “digital lending” initiative, to be begin with

Digital lending at CUB has 4 key aspects to it: (a) Reduction of turnaround time (TAT) – This will improve the product offering for CUB on the ground and attract more customers, ceteris paribus. (b) Improvement of under-writing confidence – Digitally-generated scorecards will provide confidence to the bank to under-write loans that psychologically under-confident human personal were refusing to write. This will improve disbursement throughput without necessarily diluting standards. (c) Coverage of more segments – Digital lending is already in an advanced stage for MSME lending with advances upto Rs 50mn already operational and advances upto Rs 75mn to become operational by June 2024. The bank will also extend digital lending to cover retail lending, with focus on secured retail segments of housing and LAP (d) Digital initiative has succeeded at a rival bank before - Digitally under-writing has already proved to be success at Karur Vysya Bank and there is no specific reason to believe that it will not benefit CUB.

Digital lending would dramatically reduce turnaround time for CUB, which can have potentially material consequences

CEO Dr N. Kamakodi has stated that turnaround time stands to decline from “weeks” to “48 hours”.

Exhibit 5: CUB’s Turnaround Time – No. of Days



Source: Company, YES Sec – Research

As means of representation, we have assumed the current turnaround time to be the midpoint of 1 week to 2 weeks, which is 10 days’ worth of turnaround time.

Reduction of turnaround time has the dual impact of a nature rise in disbursement throughput per unit time as well as a material improvement in the competitiveness of the loan offering in the open market.

The decline in turnaround time is driven by quicker identification of bad profiles and cleanup of other inefficiencies

Secured digital lending entails using digitally-prepared scorecards, which quickly help segregate bad profiles and good profiles. Once this happens, the sales force is able to ignore the bad profiles and focus its effort on the good profiles.

The digital process also cleans up other inefficiencies by reducing to-and-fro between credit and sales teams and avoiding unnecessary questions and documents that the credit team may ask that may not even be required.

The under-writing process with digital lending is robust as it able to harness aspects that were not possible with traditional human-only under-writing

Firstly, digital lending is able to directly use granular GST data that bolster under-writing decisions. Secondly, digital lending enables a far more granular analysis of cash flow and bank statements than was possible with human-only analysis. Volatility, cyclicality and concentration risk of cash flows can all be gauged now and consequently, 'transaction scorecards' have become more powerful. Thirdly, bureau scores themselves are being relied on less and less and digital lending is allowing a deeper analysis of bureau variables to build 'challenger' models to the bureau score.

Digital lending stands to improve under-writing confidence, which can enhance approval rate without diluting standards

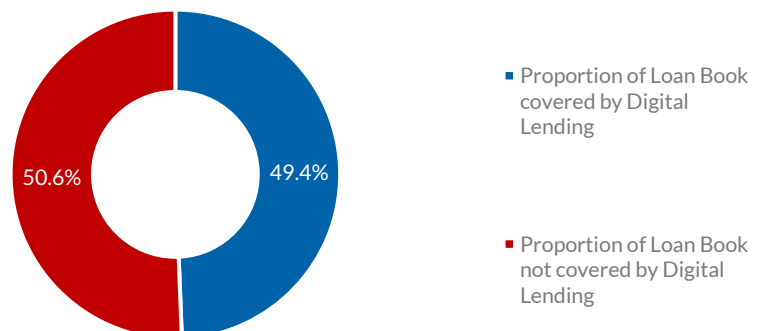
Digitally-generated scorecards will provide confidence to the bank to under-write loans that psychologically under-confident human personnel were refusing to write. Dr Kamadodi had commented, during the 1QFY24 result call, that the bank was too stringent with some profiles. However, the primary reason for Digital lending benefiting disbursement throughput would be turnaround time.

CUB is expanding the scope of Digital lending to cover more segments within the bank, implying the potential impact from the initiative would be greater

Digital lending is already in an advanced stage for MSME lending with advances upto Rs 50mn already operational and advances upto Rs 75mn to become operational by June 2024. The bank will also extend digital lending to cover retail lending, with focus on secured retail segments of housing and LAP. Later on, there are plans to expand into unsecured retail as well but CUB would be generally cautious with this segment. All of these segments taken together represent at least 49% of the loan book of CUB.

Exhibit 6: Proportion of loan book covered by Digital Lending

Proportion of Loan Book- Digital and Non-Digital



Source: Company, YES Sec – Research; Coverage = MSME, Retail trade, Wholesale trade, Housing and Personal Loans

Digital initiative has succeeded at a rival bank before, the implication being that it has been successfully tested on the ground albeit at another bank

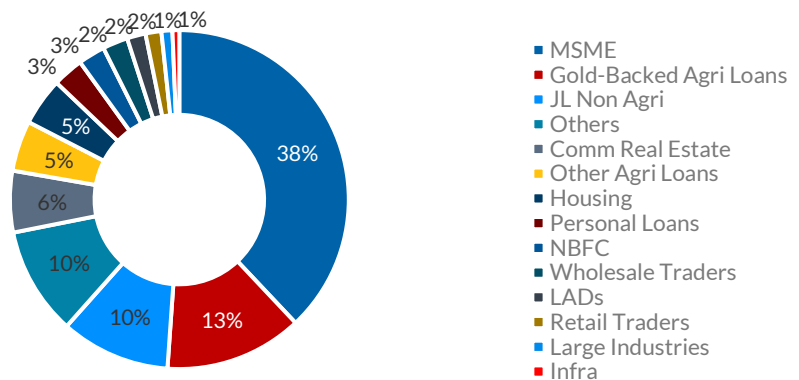
Digitally under-writing has already proved to be success at Karur Vysya Bank and there is no specific reason to believe that it will not benefit CUB.

Furthermore, the announcement of the new sales vertical heralds a change in narrative for growth strategy, over and above digital lending

For the first time in several years, CUB has shown seriousness regarding retail lending. Setting up a new sales vertical to focus on core advances is symptomatic of this seriousness. While this has led to a near-term spike in operating cost, it will be positive for retail loan growth and hence, for overall loan growth. The sales vertical will focus on secured retail segments such as home loans and LAP to begin with and then nibble into unsecured retail in a risk-calibrated manner.

The high proportion of MSME/MSME-like and gold loans and low proportion of retail loans is symptomatic of an inadequately diversified approach so far

Exhibit 7: Loan book mix - 4QFY24 - %



Source: Company, YES Sec – Research

MSME and MSME-like (Retail and Wholesale trade) loans comprise 42% of loan book and gold loans (agri and non-agri) comprise another 25%. In comparison, housing loans, personal loans and loan against deposits together make up 9.3% of loan book. Other retail loans are subsumed in the “Others” category, the whole of which is 10% of loan book (not all of which would be retail).

Low exposure to core retail as a proportion of overall loan book is a function of inadequate attention paid to the individual consumer, thus far. However, that stands to change with the new sales vertical.

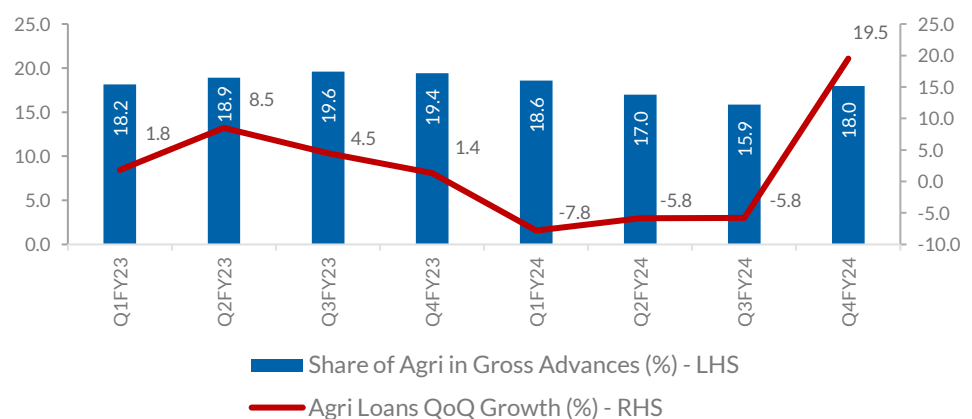
Feet-on-street and middle management have already been recruited for the new sales vertical, which has led to a spike in operating cost. The segments under focus would be home loans, affordable home loans, LAP and micro LAP. Subsequently, unsecured retail products would also be tested. The vertical will adopt a dual approach of branch sourcing as well as via DSAs. The new vertical will start booking loans from 2QFY25 onwards.

It may be noted that the rundown of the KCC book is complete and would no longer be a drag

CUB is not comfortable with the KCC business and had decided to completely run off this book. This book has completely run off and while CUB does not plan to pursue this business at this point in time, the drag from its de-growth is behind us.

The agri book saw material de-growth for 3 quarters in FY24 followed by a spike in 4Q, which is indicative of the KCC rundown having completed

Exhibit 8: Share of Gross Agri Advances in Total Gross Advances and its QoQ Growth - 1QFY23 to 4QFY24 - %



Source: Company, YES Sec – Research

Another new avenue of growth would be co-lending partnerships with NBFCs, which the bank is evaluating

The bank is currently in talks with some NBFCs which are focused on secured lending mainly in the areas of vehicle finance and gold loans and, to some extent, housing loans. These NBFCs have a complementary customer set from a geographical perspective since they operate outside Tamil Nadu.

While NPL cycle was extended for CUB, the same seems to have ended, along with strong recovery performance

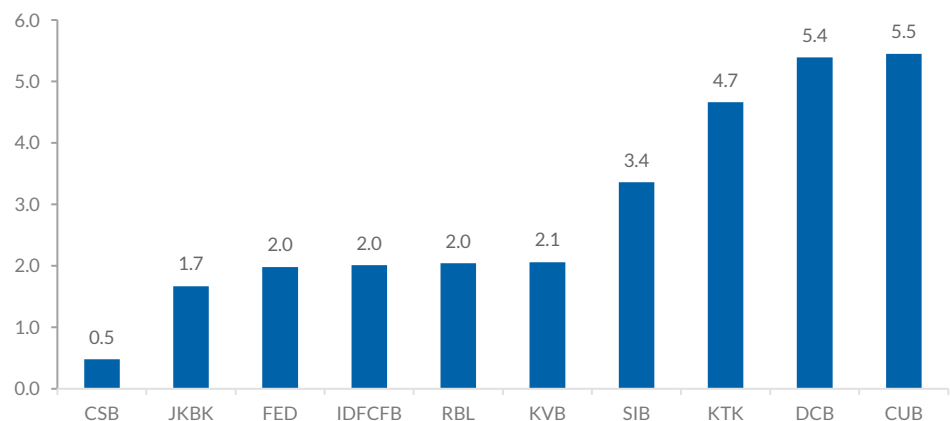
CUB's NPL cycle extended well beyond the end of the pandemic as small-ticket MSME had received a body blow from Covid. With a bloated restructured book in excess of 5% of loan book (in FY22) and the ECLGS book proving to be contributing factors, CUB's NPL cycle extended all the way upto 1HFY24. However, in 2HFY24, the NPL cycle seems to have ended for the bank. Not only did gross slippage decline Rs 3bn YoY in FY24 to ~Rs 10bn, management has guided for a similar decline to Rs 7-8bn in FY25. Recoveries and upgrades have been strong at about Rs 80bn in both FY23 and FY24. Management has guided for further improvement in recoveries in FY25.

A key reason for an extended NPL cycle for CUB was elevated underlying stress in the form of restructured pool and SMA book, both of which have now declined

Back in June 2021, CUB had the highest restructured book in our comparison universe

CUB's restructured book amounted to 5.5% of loan book back in June 2021, which was the highest in our comparison universe.

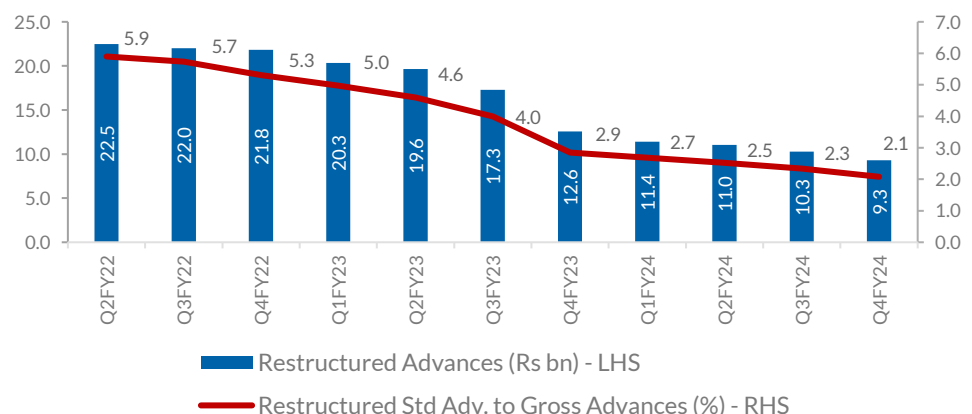
Exhibit 9: Restructured Standard Advances to Gross Advances – June'21 - %



Source: Companies, YES Sec – Research

Over a period of time, the restructured book has declined materially and poses a lesser threat than it used to

Exhibit 10: CUB's Restructured Standard Advances and its share in Gross Advances – 2QFY22 to 4QFY24 - %

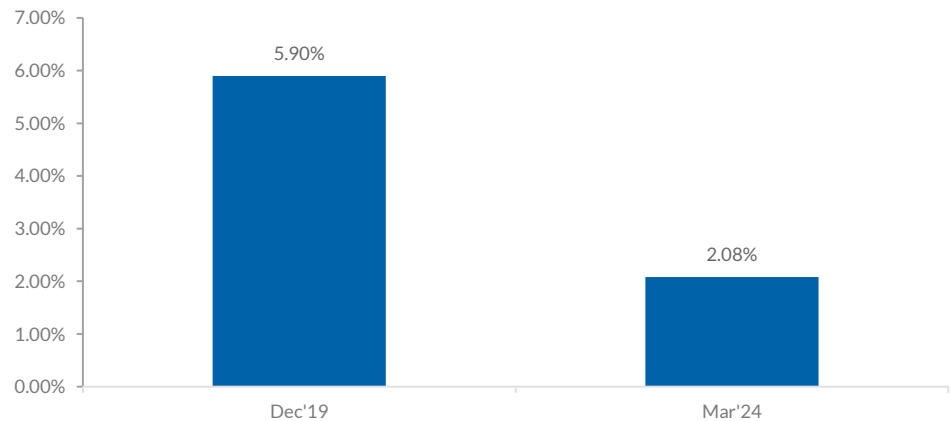


Source: Company, YES Sec – Research

The same holds true for the SMA2 book, which used to be notoriously sticky earlier but has declined materially for CUB

CUB's SMA2 book used to hover around the 6% ballpark for the longest time. However, the same has declined from 5.9% as of December 2019 to 2.1% as of March 2024.

Exhibit 11: CUB's SMA 2 - Dec'19, Mar'24 - %



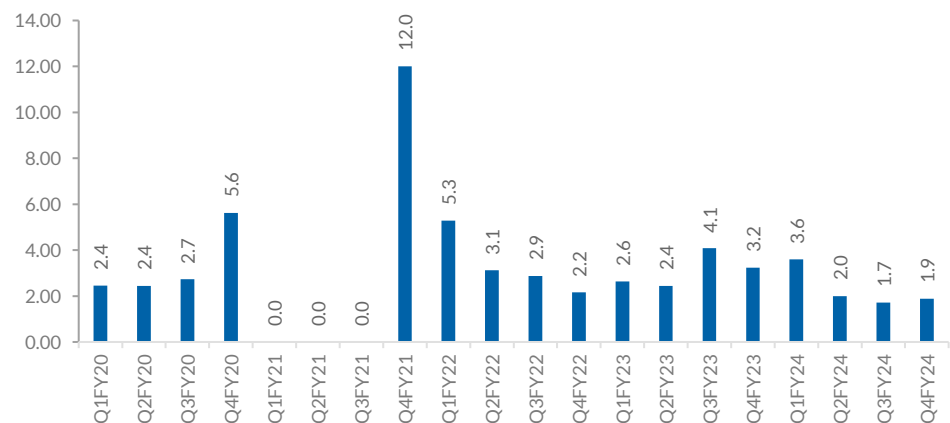
Source: Company, YES Sec – Research

Slippage has started to display a materially declining trend and given lower underlying stress, promises to be durable

After high slippage in the first quarter of FY24, slippage has been lower in the last 3 quarters of FY24

Gross slippage ratio has been in the range of 1.7-2.0% over the last 3 quarters of FY24. This is distinctly lower than what we have seen at any point over FY20-24.

Exhibit 12: Gross Annualised Slippage Ratio - 1QFY20 to 4QFY24 - %

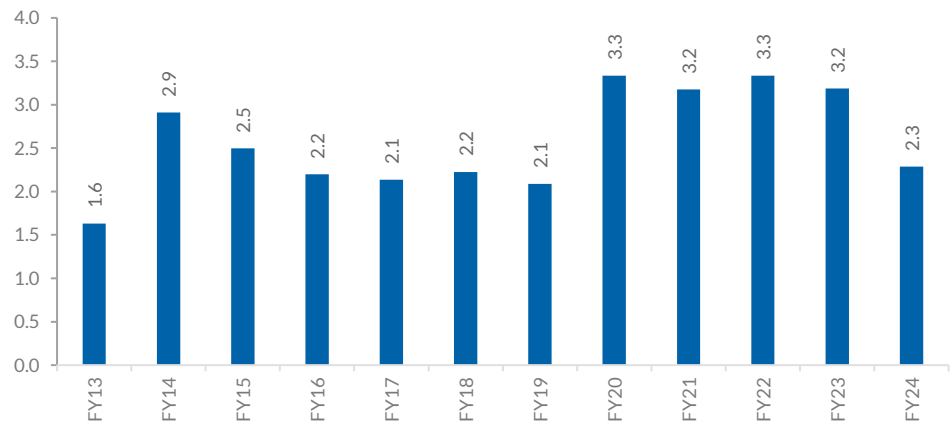


Source: Company, YES Sec – Research

Gross slippage ratio in FY24 as a whole has been the lowest since FY19 and similar to the ballpark observed over FY16-19

Gross slippage ratio was 2.3% for FY24 compared with a tight range of 3.2-3.3% observed over FY20-23. Gross slippage ratio over FY16-19 was also in a tight range of 2.1-2.2%.

Exhibit 13: CUB's Gross Slippage Ratio – FY13 to FY24 - %

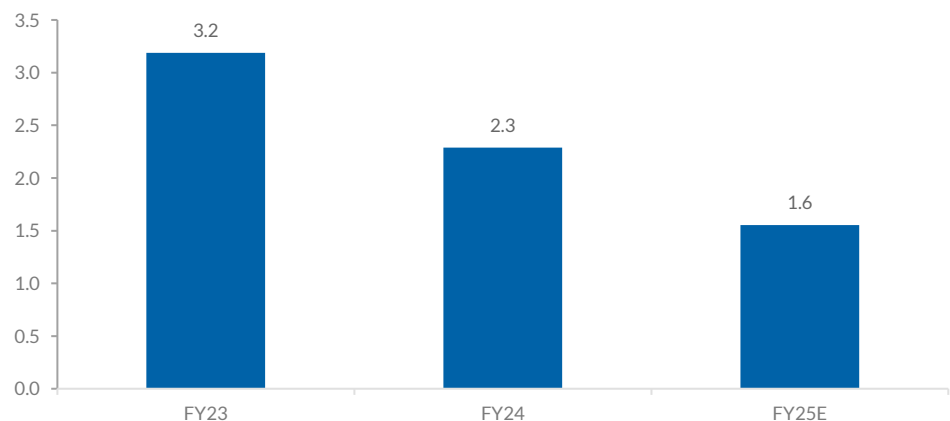


Source: Company, YES Sec – Research

Management has guided for even lower slippage in FY25, which would translate to the lowest gross slippage ratio since FY13

Management's guidance for slippage of Rs 7-8bn in FY25, which translates to a gross slippage ratio of 1.6% (at midpoint) and is the lowest since FY13, if guidance is met.

Exhibit 14: CUB's Gross Slippage Ratio – FY23, FY24, FY25E - %



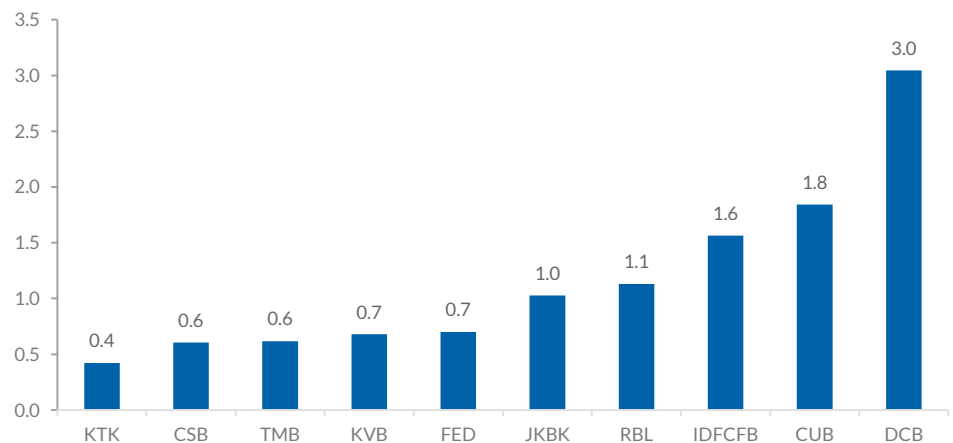
Source: Company, YES Sec – Research

CUB, which generally has healthy recovery outcomes, has also guided for strong recovery performance in FY25

CUB's recovery performance in FY24 was the second best in our comparison universe

CUB's recoveries and upgrades in FY24 at 1.8% of average advances were the healthiest in our comparison universe, bar DCB, which saw outsized gold loan slippages given to very high recovery.

Exhibit 15: Recoveries and Upgrades to Average Advances – FY24 - %



Source: Companies, YES Sec – Research

Guidance for recoveries implies potentially negligible net slippage in FY25 for CUB

Recoveries and upgrades have been strong at about Rs 80bn in both FY23 and FY24. Management has guided for further improvement in recoveries in FY25.

While margin has eroded over a period of time, we find guidance for stable margin largely believable

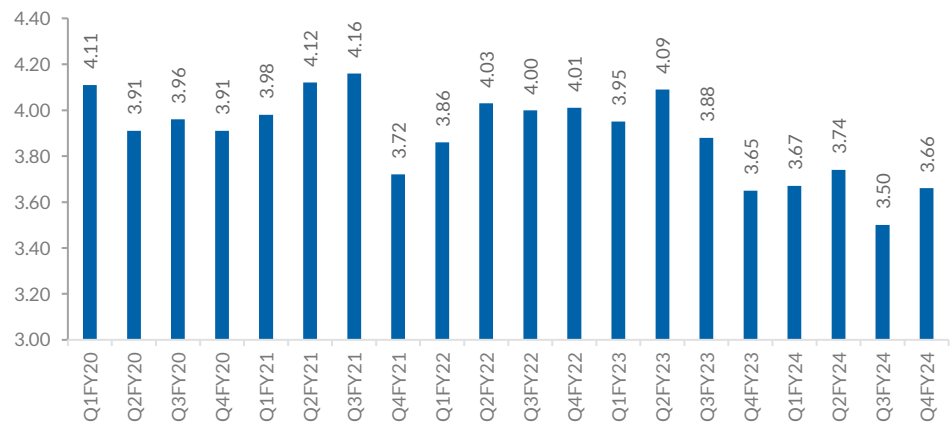
Management has guided for stable margin in FY25 plus or minus 10 bps. CUB has an LCR of 200% plus and there is no concern, as such, on the liquidity front. The CD ratio is 81-82% and management is comfortable with this level of CD ratio. There is no pressure on CUB from a CD ratio perspective. While it is true that that CUB has a relatively higher share of floating rate loans, the EBLR:MCLR ratio is relatively comfortable at 55:45. Hence, we do not foresee any major challenge emerging from the upcoming rate cut cycle which, in any case, is going to be relatively shallow at 50 bps worth of rate cuts.

Net interest margin could perhaps have bottomed out for CUB in the third quarter of FY24

Net interest margin in the third quarter of FY24 was the lowest reading observed in a very long time and seems like an anomaly

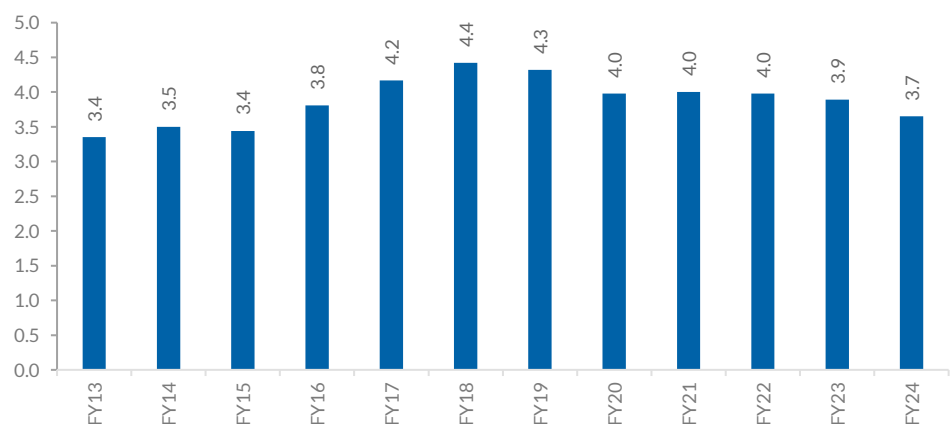
NIM in 3QFY24 stood at 3.5%, which was impacted by a one-off interest reversal of Rs.250 mn pertaining to non-performing FITL accounts. Excluding this one-off impact, the NIM would have been 3.67% in 3QFY24. In the absence of the said negative one-off, NIM has reverted back to 3.66%. It seems that the 3.7% mark seems to be a long-term bottom for CUB's NIM, given that NIM has remained in a tight range of 3.65-3.74% over the past 5 quarters, except for the anomalous third quarter of FY24.

Exhibit 16: Net Interest Margin – 1QFY20 to 4QFY24 - %



Source: Company, YES Sec – Research

Exhibit 17: Net Interest Margin – FY13 to FY24 - %



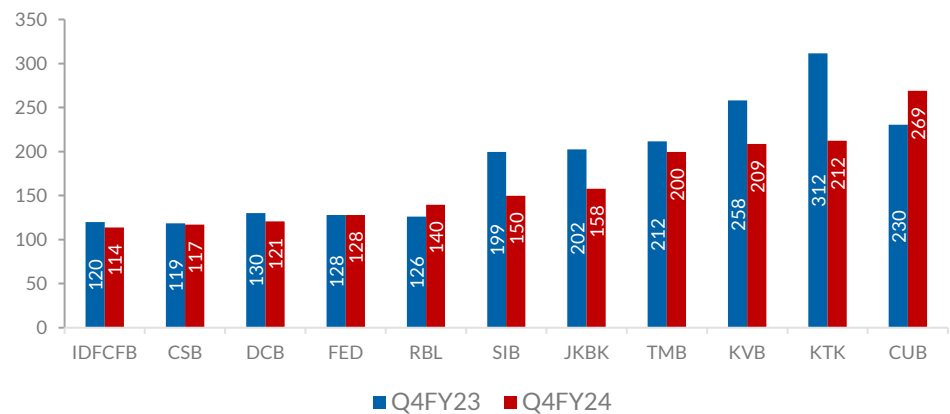
Source: Company, YES Sec – Research

CUB seems particularly comfortable on the liquidity front from both an LCR and LDR perspective

CUB has the highest LCR in our comparison universe of 11 mid and smallcap private sector banks

CUB's LCR is as high as 269% as of March 2024 and the highest in our comparison universe. There is no concern with regard to liquidity on this metric.

Exhibit 18: Liquidity Coverage Ratio (LCR) – 4QFY23, 4QFY24 - %

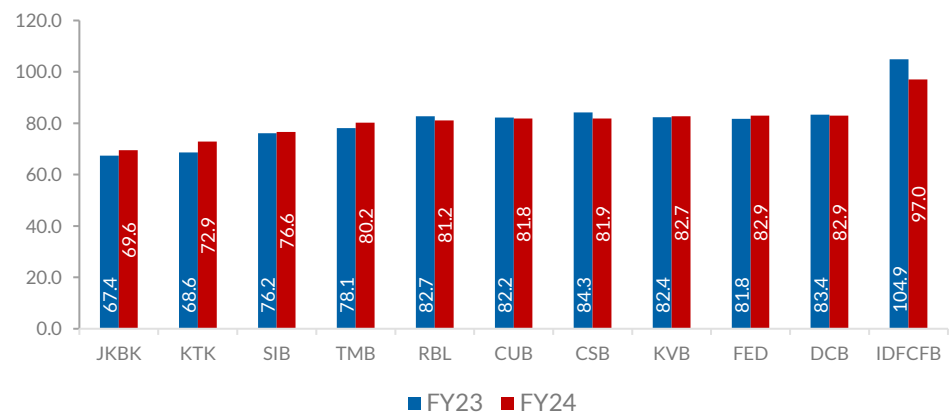


Source: Companies, YES Sec – Research, Sorted on 4QFY24

CUB's LDR is in the middle of our comparison universe but there is no concern as such on this front either

The CD ratio is 81.8% and management is comfortable with this level of CD ratio. There is no pressure on CUB from a CD ratio perspective.

Exhibit 19: Credit to Deposit Ratio (CDR / LDR) – FY23, FY24 - %



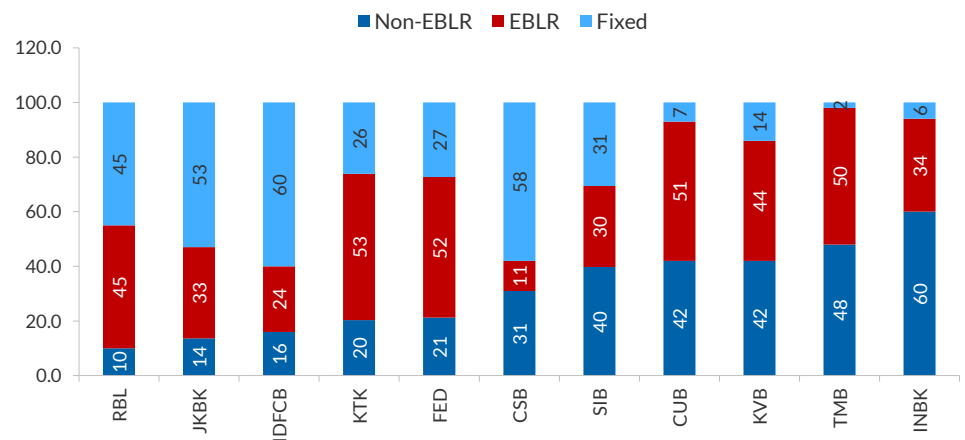
Source: Companies, YES Sec – Research, Sorted on FY24

We do not see CUB that vulnerable to a rate cut cycle as the headline proportion of floating rate loans seems to suggest

CUB has a high share of floating rate loans but this is not overwhelmingly in favour of externally-benchmarked loans

While it is true that that CUB has a relatively higher share of floating rate loans, the EBLR:MCLR ratio is relatively comfortable at 55:45. Hence, we do not foresee any major challenge emerging from the upcoming rate cut cycle which, in any case, is going to be relatively shallow at 50 bps worth of rate cuts.

Exhibit 20: Loan book mix by rate category - %



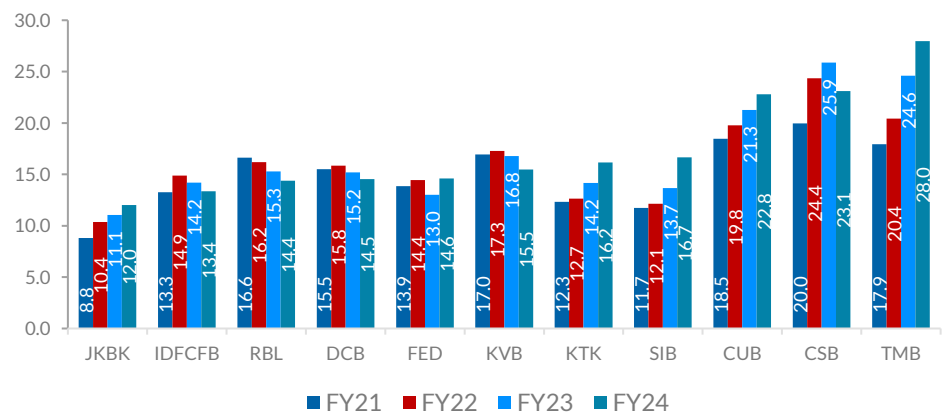
Source: Companies, YES Sec – Research

CUB is one of the best capitalized banks in our comparison universe of mid and smallcap banks

CUB's business model does not lend itself to frequent equity capital raise and it continues to organically accrete regulatory capital

CUB's CET1 capital ratio stood at 22.8%, which is the third highest in our comparison universe of mid and smallcap banks.

Exhibit 21: CET 1 Capital Ratio - FY21, FY22, FY23, FY24 - %



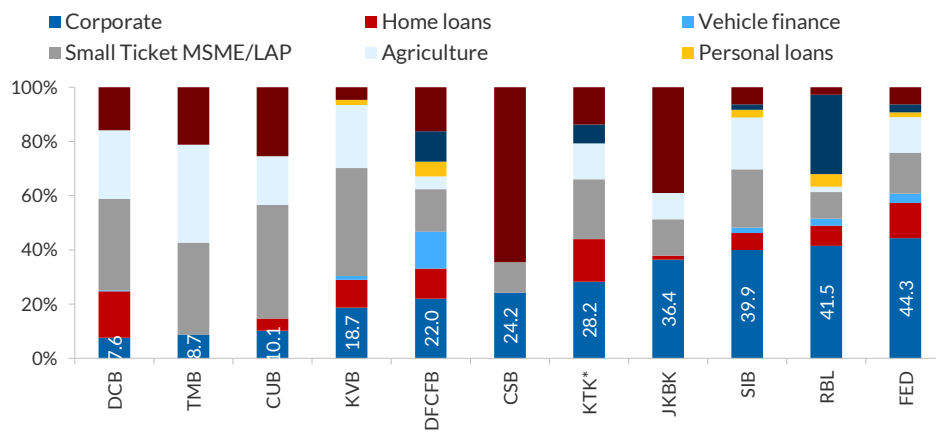
Source: Companies, YES Sec – Research, Sorted on FY24

ADDITIONAL COMPARATIVE ANALYSIS

The following charts consist of important comparative analyses that we have not used in earlier in the report.

Net Interest Margin aspects

Exhibit 22: Loan book breakup – March 2024 - %



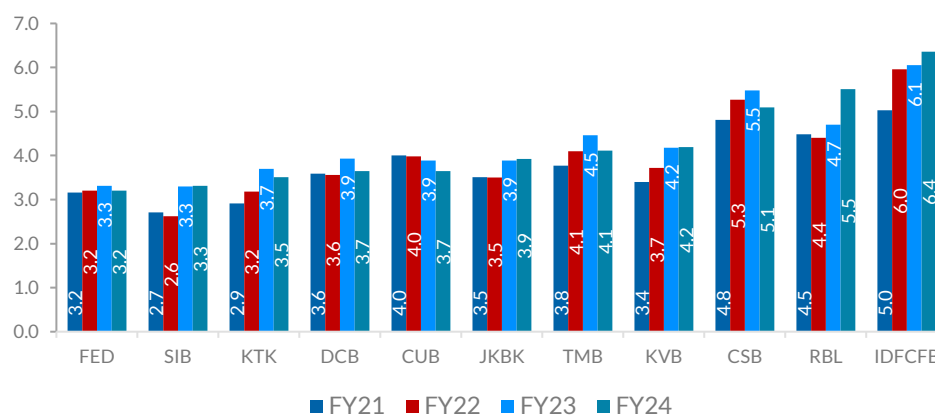
Source: Companies, YES Sec – Research, Sorted on share of Corporate loans, *Dec'23 data for KTK as in Q4 they have stopped giving retail segment break-up

Exhibit 23: Loan Book Breakup – Comparative table - 4QFY24 - %

Segments	FED	RBL	DCB	CUB	CSB	KTK*	SIB	KVB	IDFCB	TMB	JKBK
Corporate	44.3	41.5	7.6	10.1	24.2	28.2	39.9	18.7	22.0	8.7	36.4
Home loans	13.1	7.5	17.1	4.5	0.0	15.8	6.4	10.2	11.1	0.0	1.4
Vehicle finance	3.4	2.6	0.4	0.0	0.0	0.0	2.0	1.5	13.5	0.0	0.0
Small Ticket MSME/LAP	15.0	9.7	33.7	41.9	11.3	22.1	21.5	39.7	15.8	34.0	13.5
Agriculture	13.1	2.0	25.3	18.0	0.0	13.2	19.1	23.3	4.7	36.1	9.7
Personal loans	1.8	4.6	0.0	0.0	0.0	0.0	2.9	1.9	5.5	0.0	0.0
Other unsecured retail	3.0	29.2	0.0	0.0	0.0	6.9	2.0	0.0	11.3	0.0	0.0
Other retail	6.3	2.8	15.9	25.5	64.5	13.8	6.4	4.6	16.2	21.2	39.0
Total loan book	100	100	100	100	100	100	100	100	100	100	100

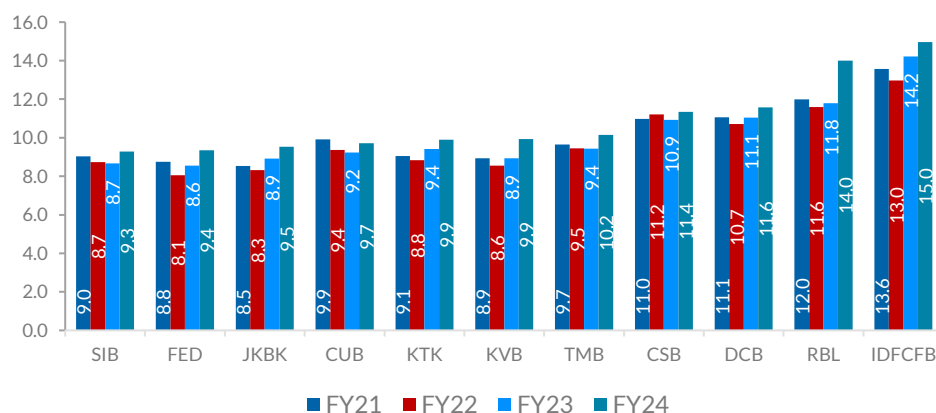
Source: Companies, YES Sec – Research, *Q3FY24 data for KTK as in Q4FY24 the bank has stopped giving retail segment break-up

Exhibit 24: NIM – FY21, FY22, FY23, FY24 - %



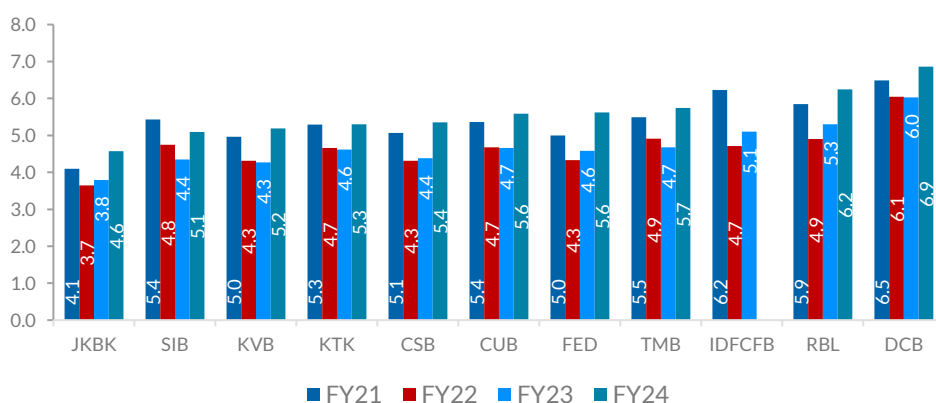
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 25: Yield on Advances – FY21, FY22, FY23, FY24 - %



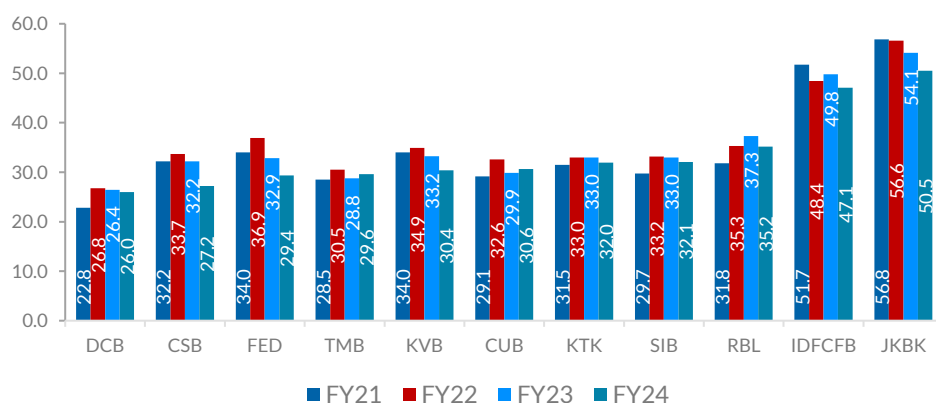
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 26: Cost of Deposits – FY21, FY22, FY23, FY24 - %



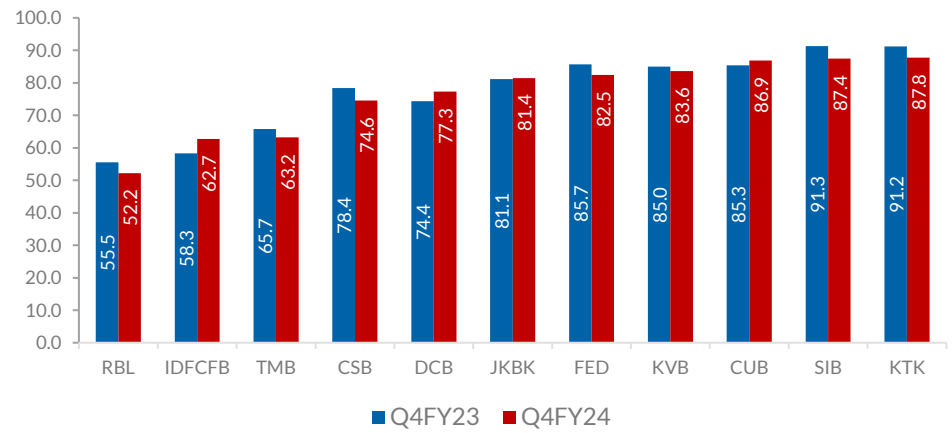
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 27: CASA Ratio – FY21, FY22, FY23, FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

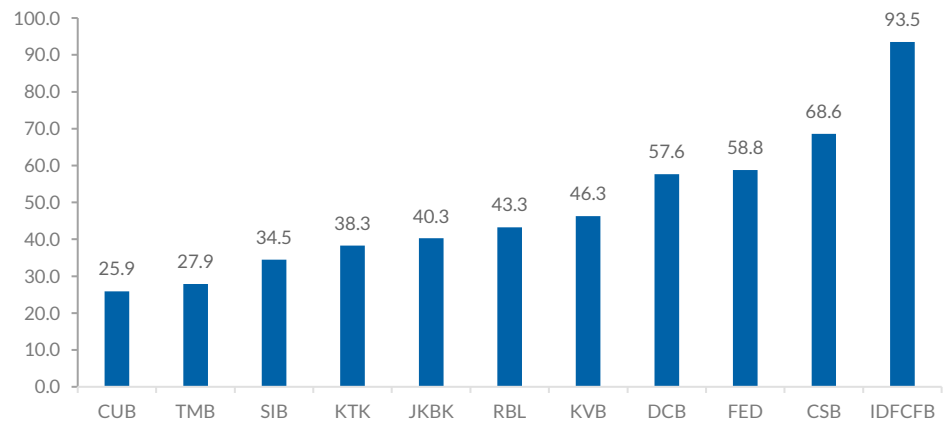
Exhibit 28: Share of LCR retail deposits in total deposits – 4QFY23, 4QFY24 - %



Source: Companies, YES Sec – Research, Sorted on 4QFY24

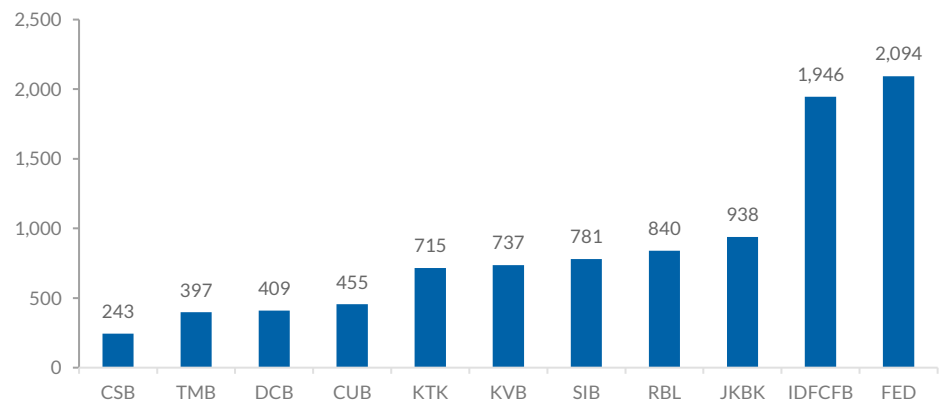
Loan Growth aspects

Exhibit 29: Loan Growth – FY21-24 – Absolute Change - %



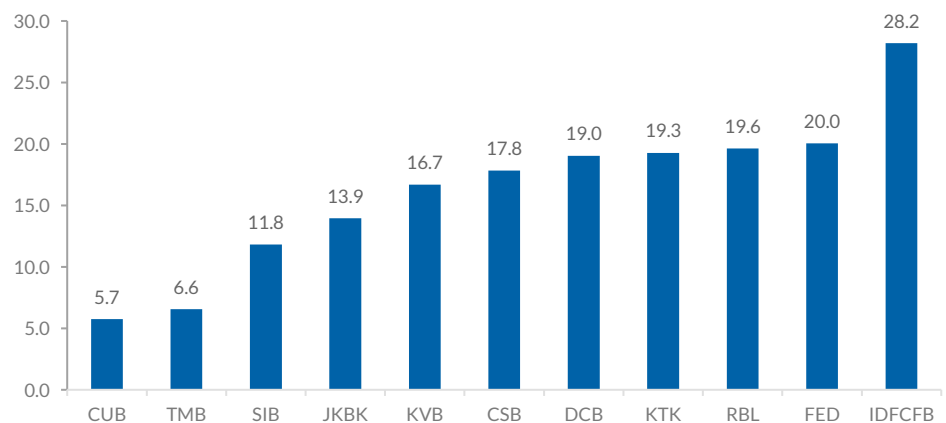
Source: Companies, YES Sec – Research

Exhibit 30: Loan Book Size – 4QFY24 – Rs bn



Source: Companies, YES Sec – Research

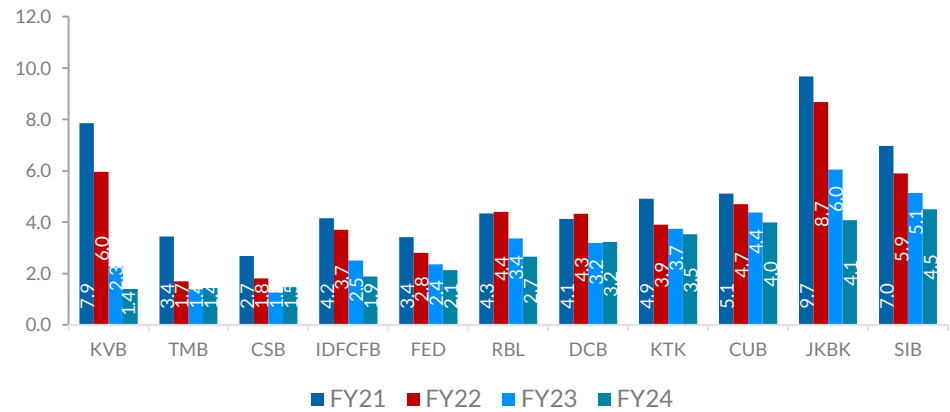
Exhibit 31: Recent loan Book Growth – FY23 to FY24 - %



Source: Companies, YES Sec – Research

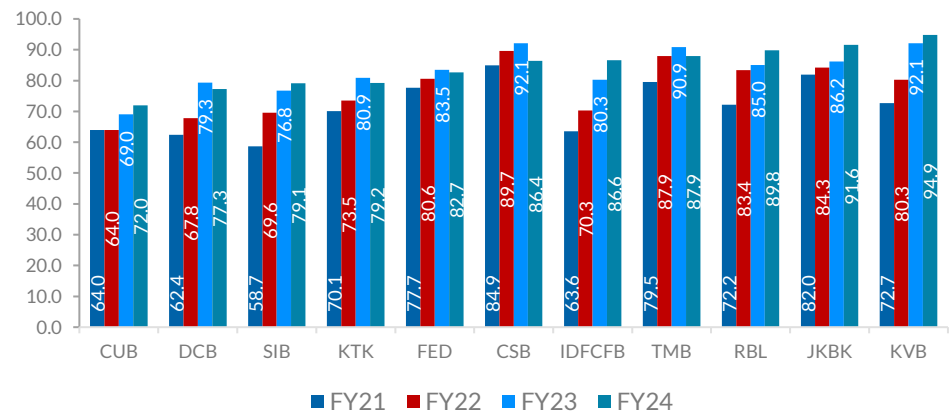
Asset Quality metrics

Exhibit 32: Gross NPA Ratio – FY21, FY22, FY23, FY24 - %



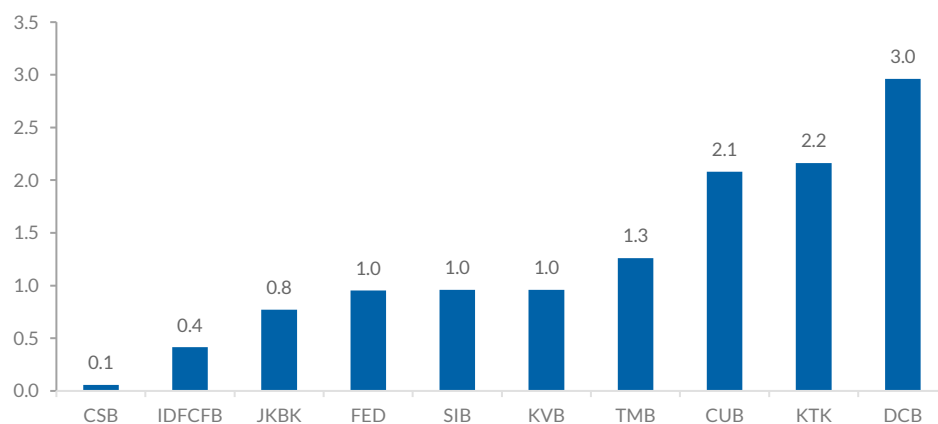
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 33: Provision Coverage Ratio – FY21, FY22, FY23, FY24 - %



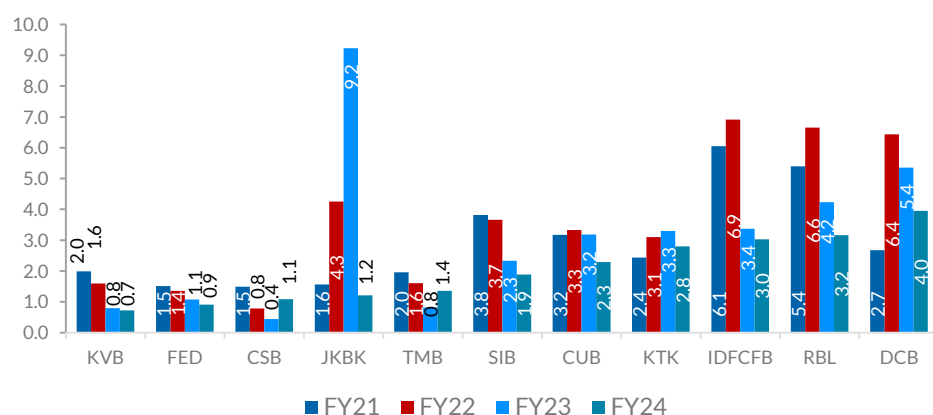
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 34: Restructured Advances as % of Gross Advances - FY24 - %



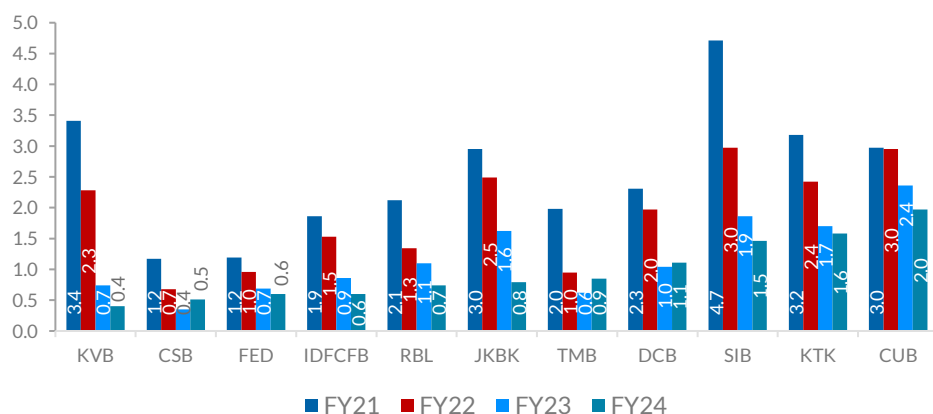
Source: Companies, YES Sec - Research

Exhibit 35: Gross Slippages Ratio - FY21, FY22, FY23, FY24 - %



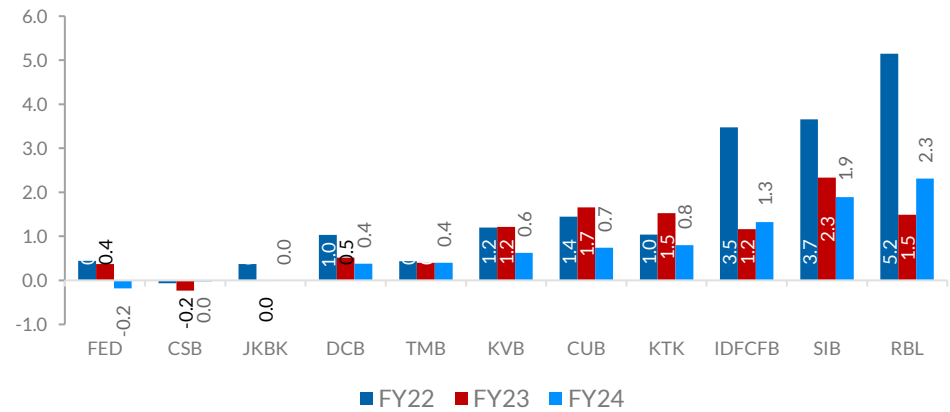
Source: Companies, YES Sec - Research, Sorted on FY24

Exhibit 36: Net NPA Ratio - FY21, FY22, FY23, FY24 - %



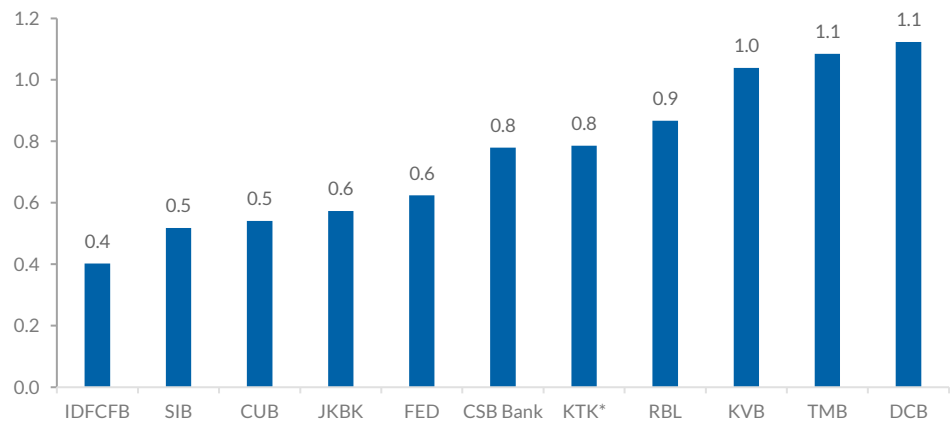
Source: Companies, YES Sec - Research, Sorted on FY24

Exhibit 37: Credit Cost – FY22, FY23, FY24 - %



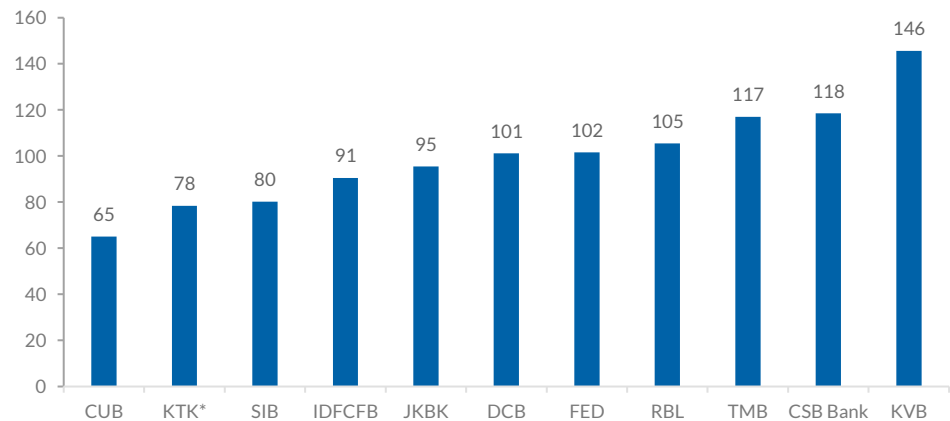
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 38: Non-specific Provisions to Gross Advances – FY24 - %



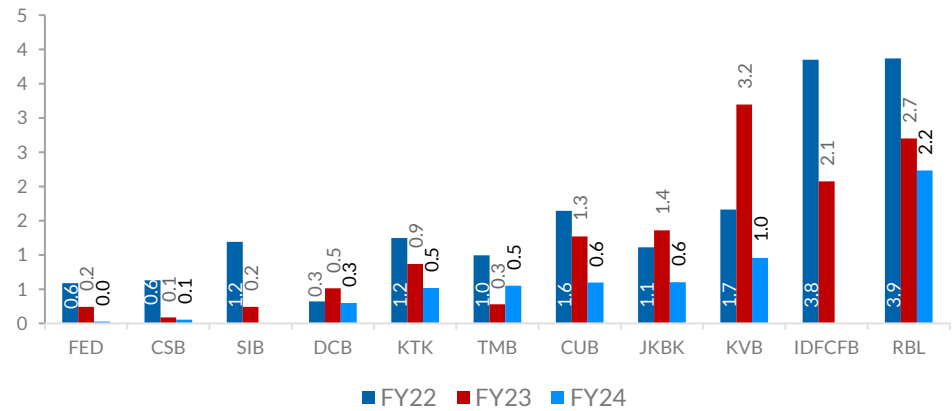
Source: Companies, YES Sec – Research, *Non-specific provisions as of March'23

Exhibit 39: Total Provisions to Gross NPA – FY24 - %



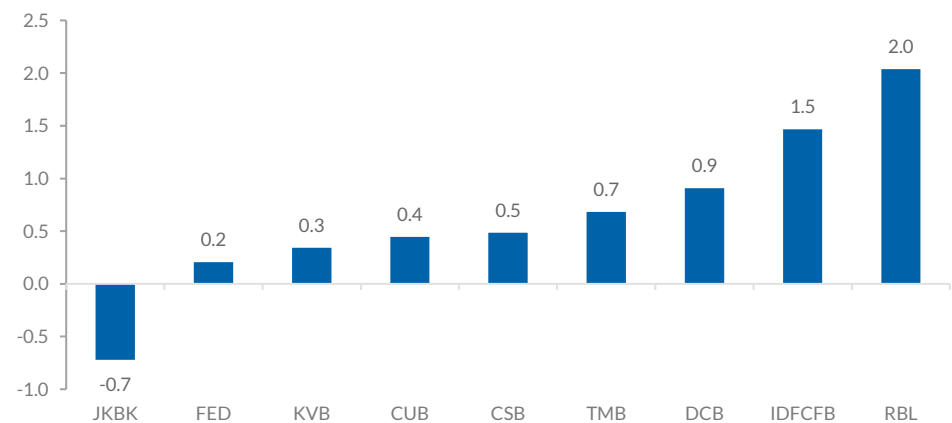
Source: Companies, YES Sec – Research, *Non-specific provisions as of March'23

Exhibit 40: Write-offs to Average Assets - FY22, FY23, FY24 - %



Source: Companies, YES Sec - Research, Sorted on FY24

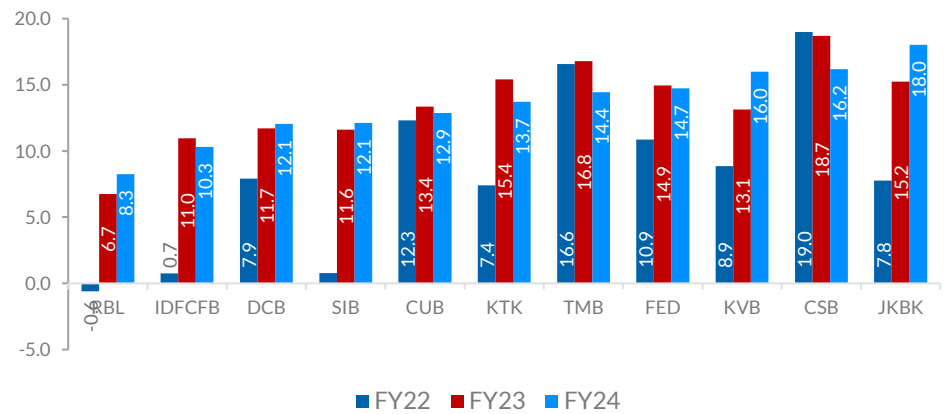
Exhibit 41: Net Slippage Ratio - FY24 - %



Source: Companies, YES Sec - Research

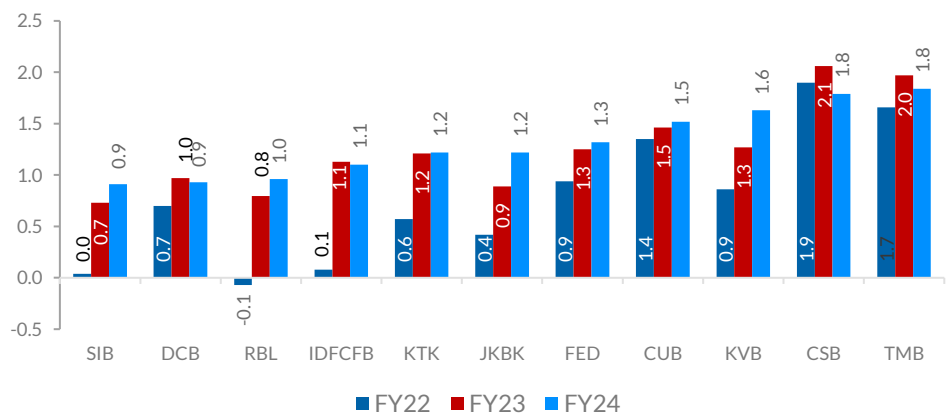
Return Ratios - Actuals

Exhibit 42: Return on Equity – FY22, FY23, FY24 - %



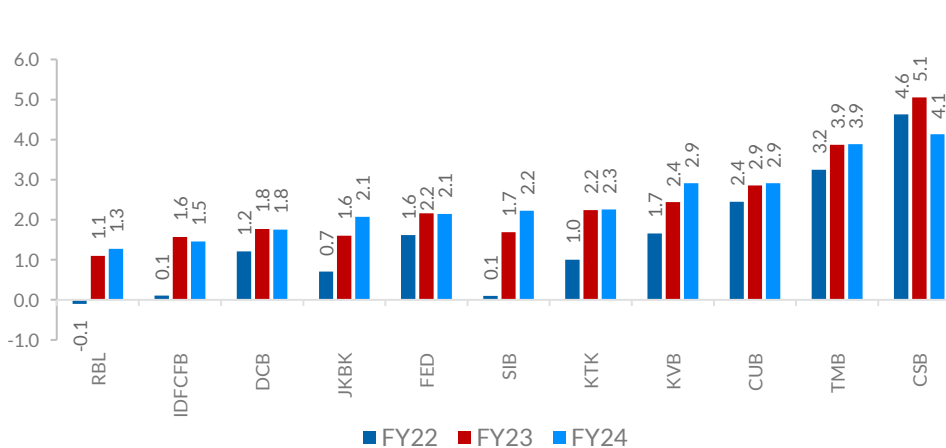
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 43: Return on Assets – FY22, FY23, FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

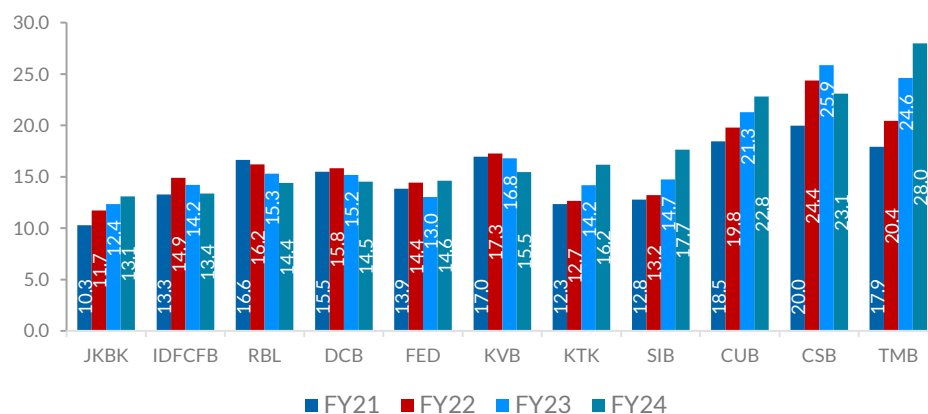
Exhibit 44: Return on Risk Weighted Assets – FY22, FY23, FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

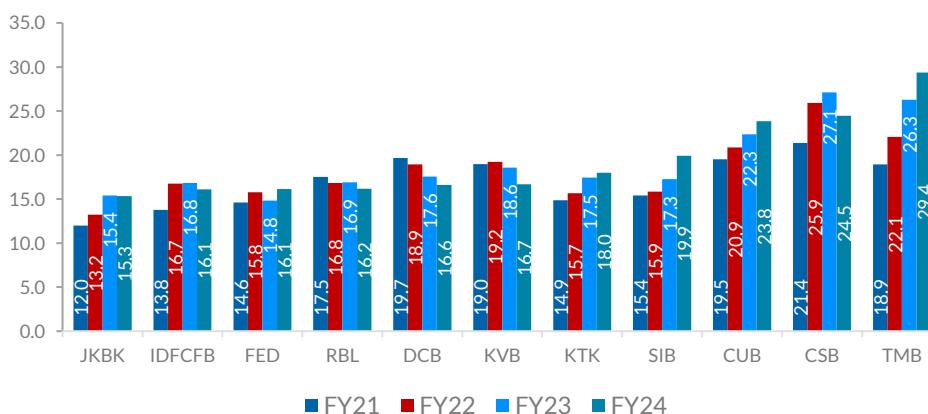
Capital Adequacy Ratios

Exhibit 45: Tier I Capital Ratio - FY21, FY22, FY23, FY24 - %



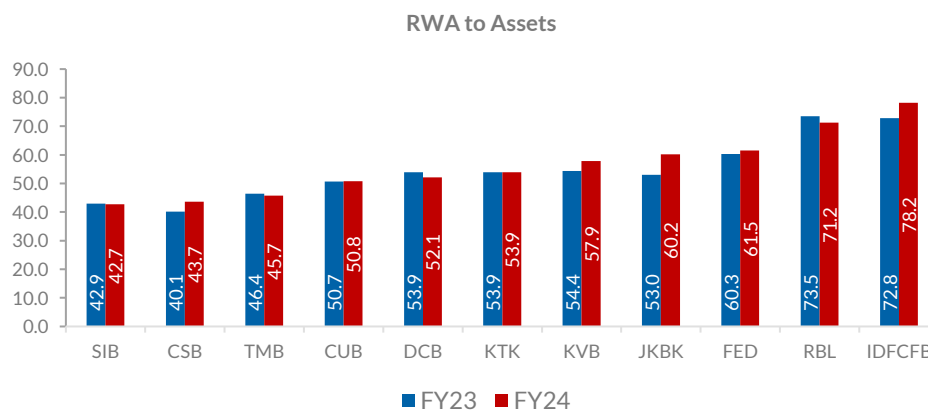
Source: Companies, YES Sec - Research, Sorted on FY24

Exhibit 46: Capital Adequacy Ratio - FY21, FY22, FY23, FY24 - %



Source: Companies, YES Sec - Research, Sorted on FY24

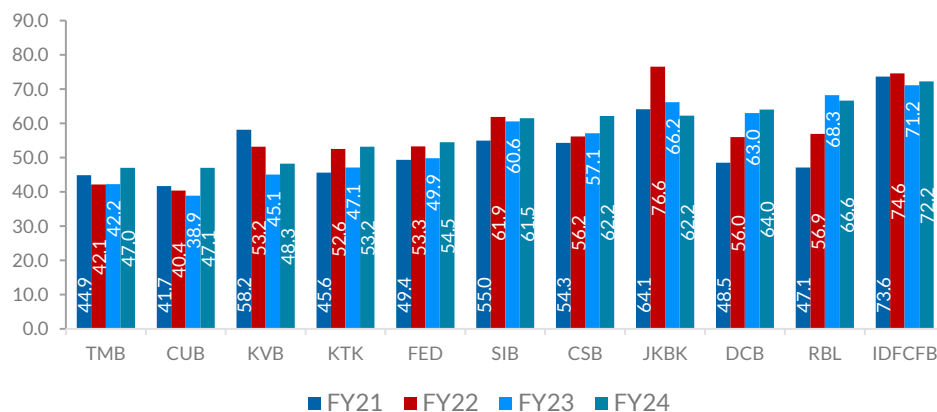
Exhibit 47: RWA to Total Assets - FY23, FY24 - %



Source: Companies, YES Sec - Research, Sorted on FY24

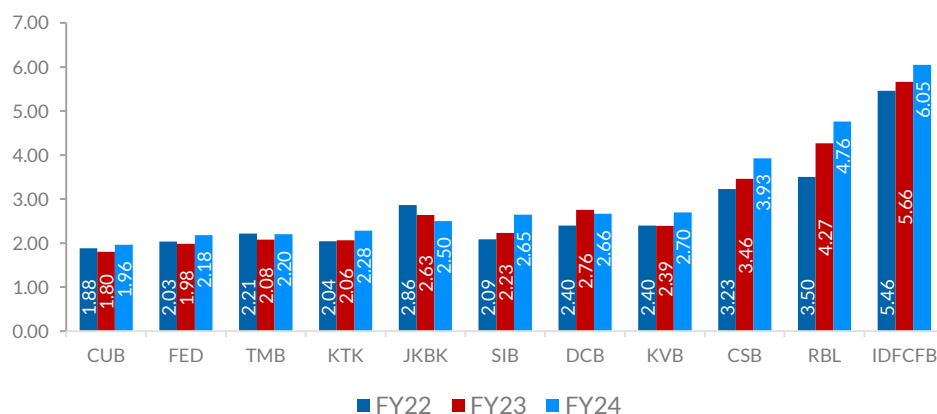
Operating Expense metrics

Exhibit 48: Cost to Income Ratio – FY21, FY22, FY23, FY24 - %



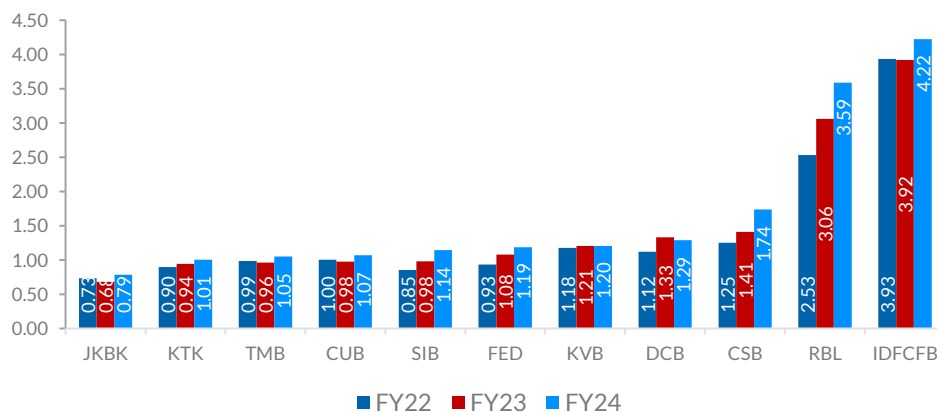
Source: Companies, YES Sec – Research, Sorted on 3QFY24

Exhibit 49: Cost to Average Assets – FY22, FY23, FY24 - %



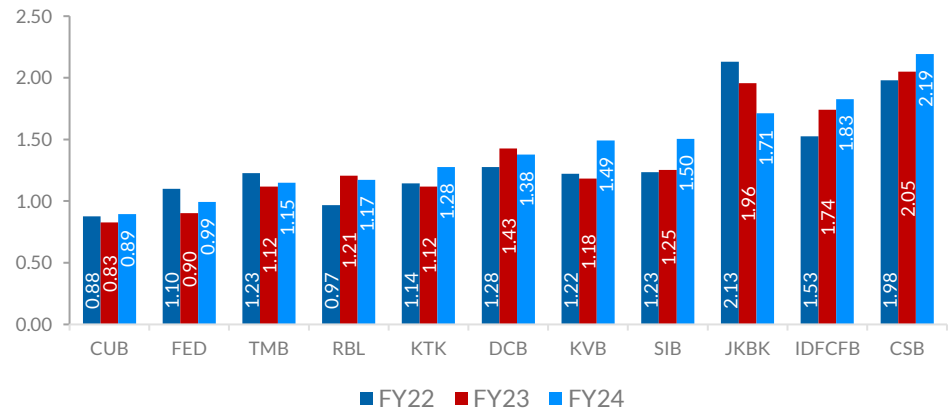
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 50: Other Opex to Average Assets – FY22, FY23, FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

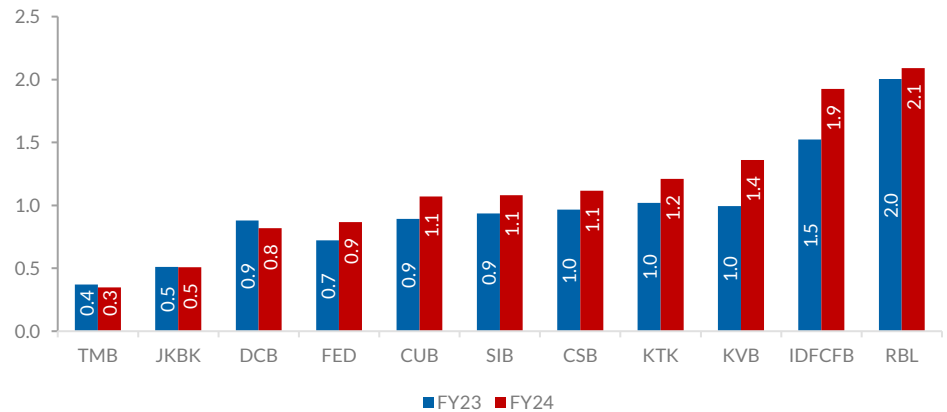
Exhibit 51: Employee Expense to Average Assets – FY22, FY23, FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

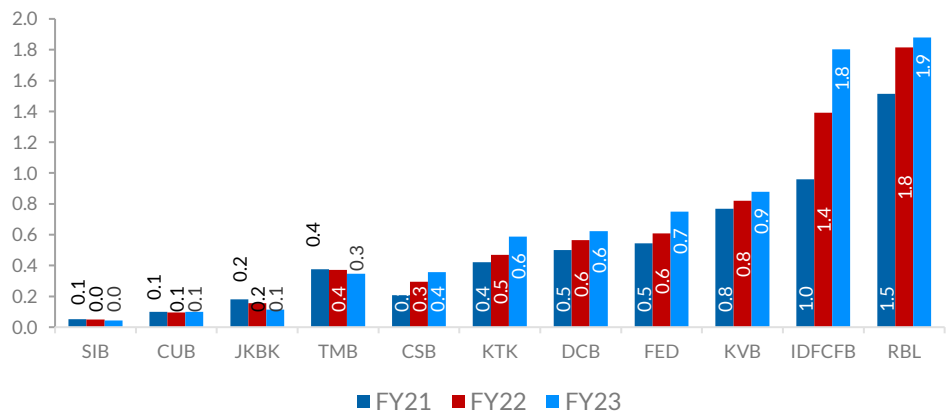
Fee Income aspects

Exhibit 52: Core Fee Income to Average Assets – FY23, FY24 - %



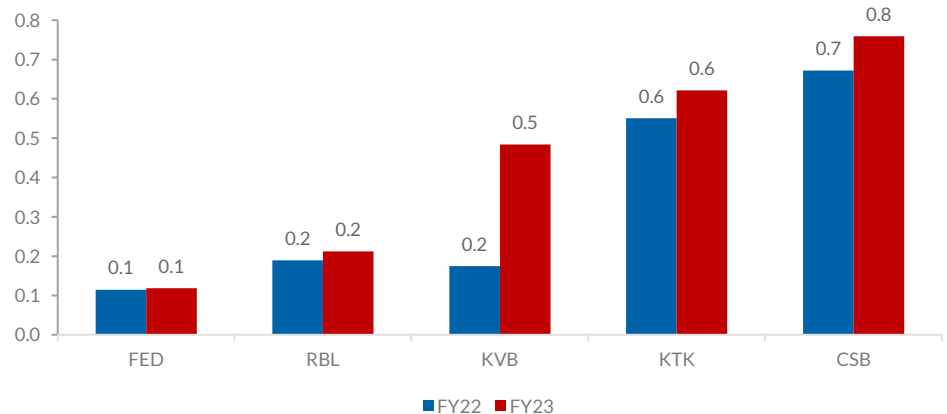
Source: Companies, YES Sec – Research, Sorted on FY23

Exhibit 53: Commission, Exchange and Brok. to Avg. Assets – FY21, FY22, FY23 - %



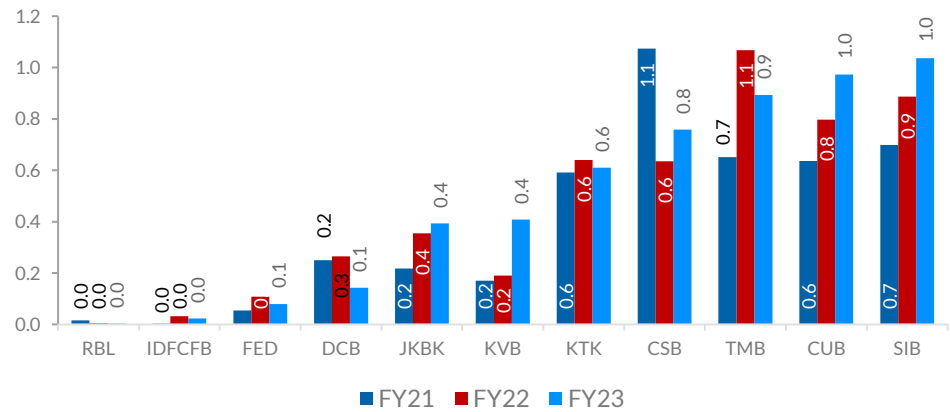
Source: Companies, YES Sec – Research, Sorted on FY23

Exhibit 54: Other Core Fee Income to Avg. Assets – FY22, FY23 - %



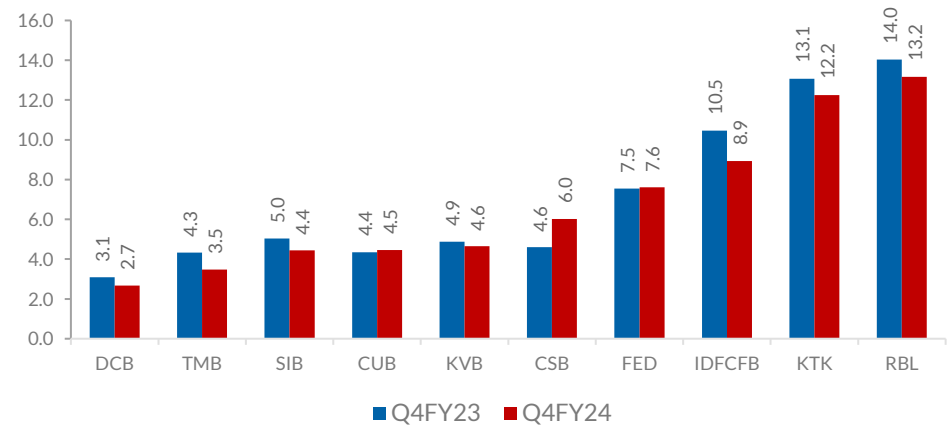
Source: Companies, YES Sec – Research, Sorted on FY23

Exhibit 55: Miscellaneous income to Avg. Assets – FY21, FY22, FY23 - %



Source: Companies, YES Sec – Research, Sorted on FY23

Exhibit 56: Share of Non-funded credit in total credit - as per Basel 3 disclosure – 4QFY23, 4QFY24 - %



Source: Companies, YES Sec – Research, Sorted on 4QFY24

Risk factors

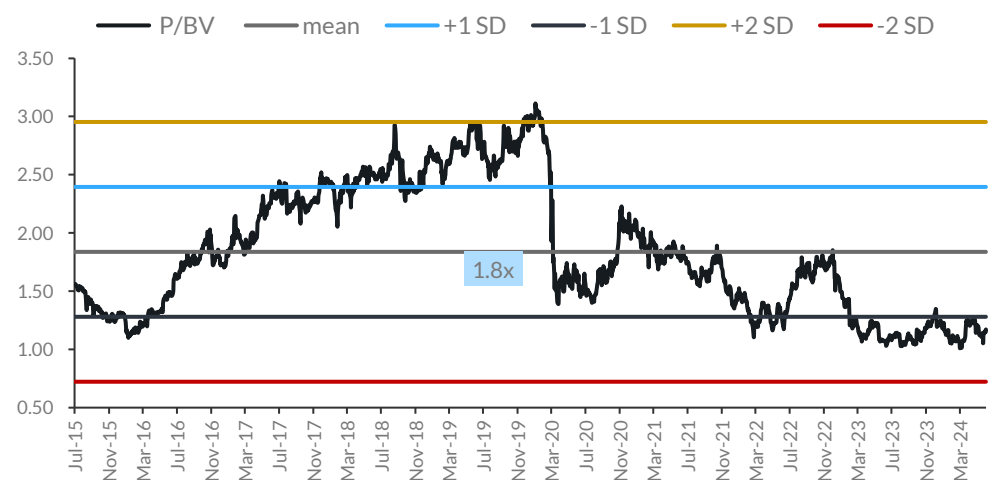
- Failure in executing Digital Lending initiative and it turning out to be more an academic exercise rather than having any impact on the ground.
- New sales vertical not displaying expected productivity if new employees, whether feet-on-street or middle management, not being able to scale up incremental business.
- A steeper than expected decline in interest rates leading to impact on floating rate book, particularly the externally benchmarked loan book.
- Emergence of new NPL cycle from small-ticket MSME book due to elevated interest rates starting to acutely impact small businesses.

Exhibit 57: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 58: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 59: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	66,869	66,493	69,435	77,768	88,655
Investments	122,212	143,326	156,641	172,170	189,251
Advances	403,585	430,533	455,257	509,888	581,272
Fixed assets	2,147	2,393	2,704	2,974	3,272
Other assets	20,496	23,200	24,221	27,128	30,383
Total assets	615,309	665,946	708,259	789,927	892,833
Net worth	65,857	74,572	84,014	93,508	104,213
Deposits	476,897	523,979	556,566	622,123	707,785
Borrowings	53,118	46,881	47,242	49,427	52,282
Other liabilities	19,437	20,514	20,436	24,869	28,554
Total liabilities incl. Equity	615,309	665,946	708,259	789,927	892,833

Source: Company, YES Sec – Research

Exhibit 60: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	41,048	47,143	52,706	57,625	64,818
Interest expense	(21,883)	(25,515)	(31,471)	(34,125)	(38,256)
Net interest income	19,165	21,628	21,235	23,500	26,563
Non-interest income	7,591	8,104	7,417	7,390	8,252
Total income	26,756	29,732	28,651	30,890	34,814
Operating expenses	(10,803)	(11,552)	(13,484)	(14,987)	(16,958)
PPoP	15,953	18,180	15,167	15,903	17,856
Provisions	(6,102)	(6,405)	(2,860)	(2,948)	(3,368)
Profit before tax	9,852	11,775	12,307	12,955	14,487
Taxes	(2,250)	(2,400)	(2,150)	(2,721)	(3,042)
Net profit	7,602	9,375	10,157	10,235	11,445

Source: Company, YES Sec – Research

Exhibit 61: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest income	7.1	7.4	7.7	7.7	7.7
Interest expense	-3.8	-4.0	-4.6	-4.6	-4.5
Net interest income	3.3	3.4	3.1	3.1	3.2
Non-interest income	1.3	1.3	1.1	1.0	1.0
Total income	4.7	4.6	4.2	4.1	4.1
Operating expenses	-1.9	-1.8	-2.0	-2.0	-2.0
PPoP	2.8	2.8	2.2	2.1	2.1
Provisions	-1.1	-1.0	-0.4	-0.4	-0.4
Profit before tax	1.7	1.8	1.8	1.7	1.7
Taxes	-0.4	-0.4	-0.3	-0.4	-0.4
Net profit	1.3	1.5	1.5	1.4	1.4

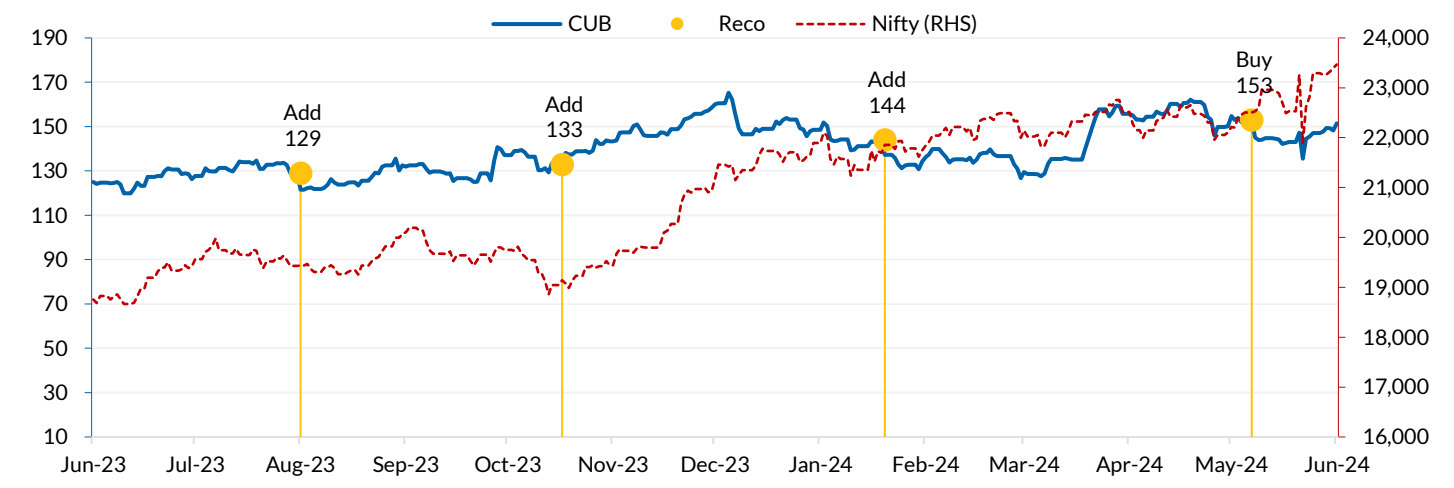
Source: Company, YES Sec – Research

Exhibit 62: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	4.7	12.9	-1.8	10.7	13.0
PPoP	8.7	14.0	-16.6	4.9	12.3
Net profit	28.2	23.3	8.3	0.8	11.8
Loans	11.6	6.7	5.7	12.0	14.0
Deposits	7.1	9.9	6.2	11.8	13.8
Profitability Ratios (%)					
Net interest margin	4.0	3.9	3.7	3.7	3.7
Return on Average Equity	12.2	13.4	12.8	11.5	11.6
Return on Average Assets	1.3	1.5	1.5	1.4	1.4
Per share figures (Rs)					
EPS	10.3	12.7	13.7	13.8	15.5
BVPS	89	101	113	126	141
ABVPS	73	87	101	116	128
Valuation multiples					
P/E	15	12.0	11.0	11.0	9.8
P/BV	1.7	1.5	1.3	1.2	1.1
P/ABV	2.1	1.7	1.5	1.3	1.2
NIM internals (%)					
Yield on loans	9.0	9.1	9.4	9.4	9.4
Cost of deposits	4.6	4.6	5.4	5.4	5.3
Loan-deposit ratio	84.6	82.2	81.8	82.0	82.1
CASA ratio	32.6	29.9	30.6	31.0	31.0
Opex control (%)					
Cost/Income ratio	40.4	38.9	47.1	48.5	48.7
Cost to average assets	1.9	1.8	2.0	2.0	2.0
Capital adequacy (%)					
Tier 1 capital ratio	19.8	21.3	22.8	22.0	21.5
Asset quality (%)					
Slippage ratio	3.3	3.2	2.3	1.6	1.6
Gross NPL ratio	4.7	4.4	4.0	2.9	2.6
Credit cost	1.4	1.7	0.7	0.6	0.6
Net NPL ratio	3.0	2.4	2.0	1.6	1.6

Source: Company, YES Sec – Research

Recommendation Tracker



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