Twitter Thread by The Average Trader.



The Average Trader.
@icanseeyourpix2

A thread ■about a bank whose 2nd name is "Consistency" and it's name is - CITY UNION BANK

Grab a cup of water and relax because it's gonna be a verryyyy long thread.

And don't forget to Re-tweet for wider reach.



HISTORY - City Union Bank is the oldest private sector bank in India, started in 1904 as Kumbakonam Bank in the Tamil Nadu as 'The Kumbakonam Bank Limited'.

It's amongst the very few banks that have survived for over 100 years and has remained profitable.

But before we get into the details about the bank, I wanna establish a base that how a bank works and what ratios one should look for.

So banking is a reallllly simple business but at the same time it's not.

So the typical function of a bank is, they provide a place for people to keep their money and give that money to someone else. (It's simple right? You take money from one person and give that money to other person)

So how do they make money?

So why would a person deposit it's money in a bank?

Because 1st of all, you can't keep that much amount lying at your house and 2nd of all you get some interest on the money that you've deposited with them.

And bank is not gonna do that for free right? They use those deposits and give that money to people who need money at an interest.

So let's try to understand it with an example - Bank is giving 4% on deposits & charges 7% on the loans that they've given.

So 7% - 4% = 3%

So this 3% that the bank is earning is known as "Net Interest Margin"
(Interest received - Interest paid/Average assets = Net Interest Margin)

Think of it as Net Profit Margin in any other business.

So the bank is gonna make 3% after giving the money to the depositors. But wait it can't be that simple right?

What if someone doesn't pay the money back? How will the bank pay the depositors back in case they want to withdraw their money?

That concept is called - "Asset Liability mismatch". Banks need to maintain enough capital that if someday all the depositors decide to withdraw their money so banks can pay them back.(Although such is only theoretically possible, and if happens someday banks block the withdrawal

We have a special name for someone who doesn't pay money back.

They're called NPA or Non Performing Asset.

Suppose if somebody hasn't paid any EMI or the principle amount for 90 days they're classified as NPA.

So whenever an account turns NPA, bank have to set aside some money from the profit to make up for the potential loss that can occur due to that account.

So the amount of money that has to be set aside is knows as "Provision".

NPA is also of two types - GNPA & NNPA.

So as I said earlier if somebody hasn't paid the interest or principle amount back for 90 days that is known as Gross Non performing Asset or GNPA.

And remember we set aside some money in case of potential loss?

So when we deduct that money from GNPA, we get NNPA.

GNPA - Provisions = NNPA

So now that've understood what Net Interest Margin, GNPA, NNPA & provision are let's try to understand few other important concepts like - CASA, CRAR, Treasury operations, Provision Coverage Ratio etc

So 1st let's try to understand what CASA is.

So CASA means = Current Account - Saving Account

So in bank we can open two types of accounts (Broadly speaking) - Savings account or current account.

Most business people open a current account because there's a continuous flow of money.

And we normal people open saving account to keep the extra money somewhere safe.

There are many other types of accounts in a bank like - Business accounts, Salary accounts etc etc.

So why do banks prefer having high CASA and why CASA ratio the higher the better?

Because on current account banks doesn't have to pay any interest & on saving account they have to say low interest as compared to fixed deposits or bonds and it's stick in nature.

Because most people won't just spend their saving right away, right? So as long as that money is in account, the better.

That's why banks with high CASA ratio can earn more money because their interest out go is lower as compared to a bank who has more raised money

through more fixed deposits and Bonds.

In CASA also, the higher the retail deposits the better as compared to a single customer with a large account.

CASA RATIO = CASA DEPOSTIS/TOTAL DEPOSITS (As a thumb rule - Higher the better)

Then we have SMA 0, SMA1 & SMA 2.

So if you remember I told you about something called NPA, right?

That if someone hasn't paid back the interest or principle amount for more than 90 days, they're qualified as NPA.

But what if someone hasn't paid back for say 30 days or 60 days

What do we call them?

Here comes the concept of SMA or Special Mentioned Accounts.

We have SMA 0 - If the stress has remained overdue for 0 - 30 days

SMA 1 - If the stress has remained overdue for 30-60 days

SMA 2 - If the stress has remained overdue for 6- -90 days.

And one of the most Ratio that one needs to definitely take a look at while analyzing a bank - CAR or Capital Adequacy Ratio

It means - Capital Adequacy Ratio (CAR) is the ratio of a bank’s capital in relation to its risk-weighted assets and current liabilities.

The Capital Adequacy Ratio (CAR) helps make sure banks have enough capital to protect depositors’ money.

I has two components - Tier 1 & Tier 2 capital.

Tier 1 - Tier 1 capital can be used to absorb losses without a bank having to stop its operations.

Tier 2 - Tier 2 capital can be accessed by shutting down operations and selling off assets, which is a more extreme type of security against risk.

And the combination of both Tier 1 + Tier 2 should be more than 10.5% including the buffer.

How do we calculate CAR?

It's simple - Tier 1 + Tier 2/Risk Weighted Assets = Risk weighted Assets.

You don't need to calculate this, you can find it in their investor presentation.

As for the thumb rule remember one thing, For a bank it should be above 10.5%

For universal banks (Like hdfc, icici, axis etc) It should be within the range of 15-20%

And for high risk Microfinance NBFCs etc, it should be around 20-25%.

Now that we've gone through a mini course on banking. Let's talk about the bank, this thread is originally about.

City Union Bank is a regionally focused bank operating mainly in Tamil Nadu and it's more than 100 years old.

One really interesting thing about this bank is that, in it's history of more than 110 years, it has seen only 7 CEO's till date. Yes you heard it right, Only 7 CEO's

till date.

As i said earlier, it's a regionally focused bank with 486 branches out of 700 in just Tamil nadu.

66% Of the advances are from Tamil Nadu
81% Deposits are from Tamil Nadu
(High geographical Concentration)

State	No. of Branches	% of Deposits	% of Advances	% of Business
Tamilnadu	486	81	66	74
Karnataka	41	6	5	5
Andhrapradesh	45	2	7	5
Telengana	34	3	6	4
Maharashtra	20	2	3	3
Kerala	18	2	2	2
Gujarat	14	1	4	2
Others	44	3	7	5
Total	**702**			

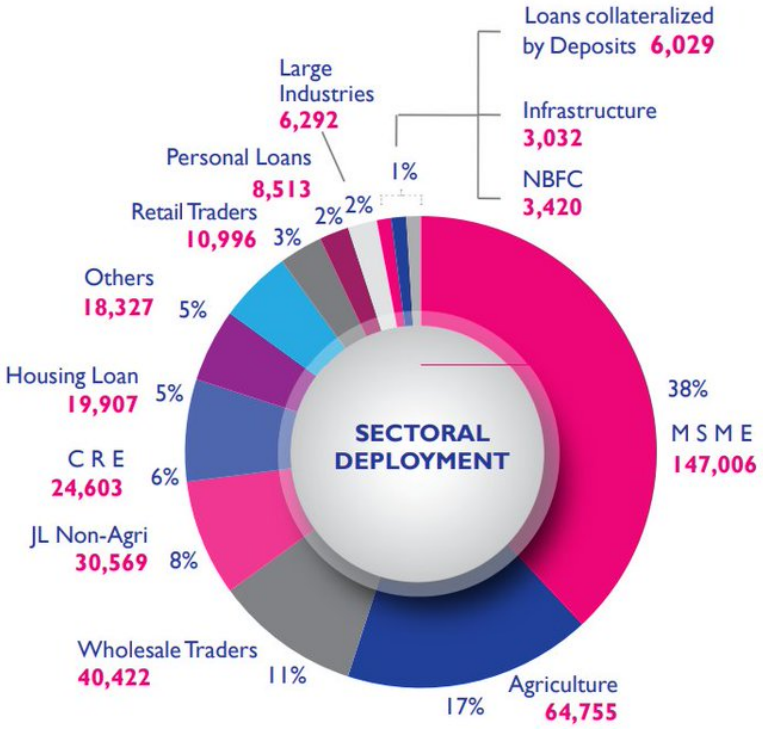
Their loan book is 99% secured and they mainly give loans to MSMEs, Traders and Agriculture loans.

66% loan book is to these segments (High risk as these segments are very vulnerable to economic condition)

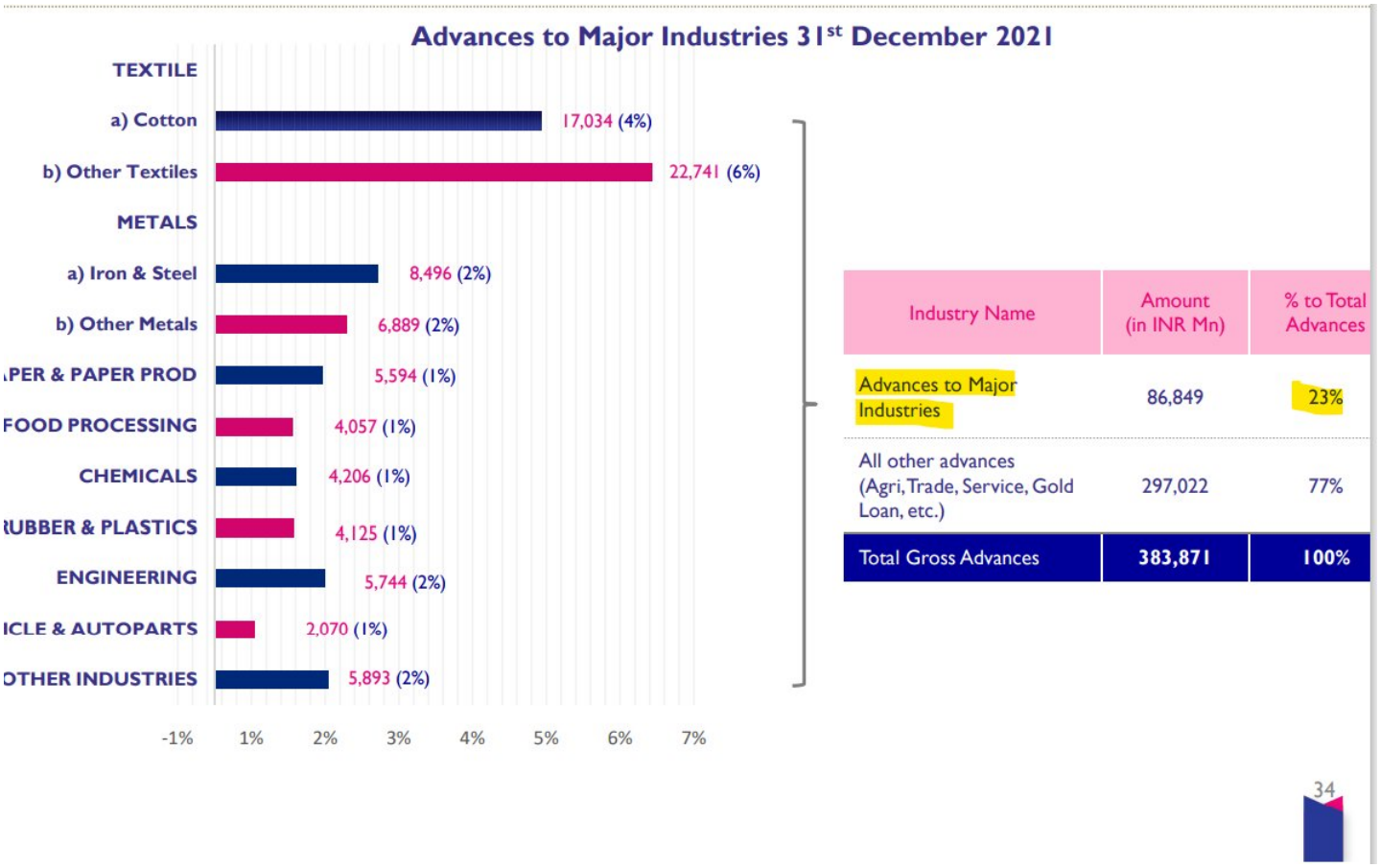
38% - MSME
17% - Agriculture
11% - Wholesale Traders

LOAN BOOK SECTORAL DEPLOYMENT – POSITION AS ON 31.12.2021

(in INR Mn)



No major industry constitutes for more than 6% of the total advances and of the overall loan book, only 23% advances are to major Industries.



Majority of their Agricultural loans are backed by gold and as of December 2021, Gold loans are 21% of the total advances.

For past one year, gold loans have grown at - 48%

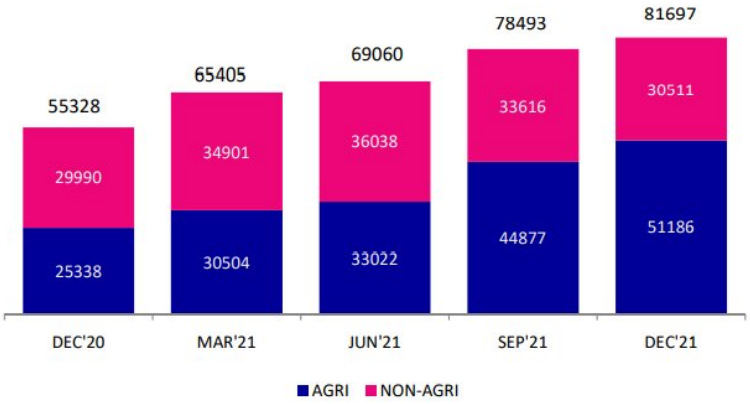
And LTV (Loan to Value) ratio for them is - 69%

LOAN BOOK - DRIVER TO GROWTH – Q3 FY 22

✓ *During the last few quarters due to COVID pandemic and in the absence of other avenue for growth, the thrust given to improve Gold Loan which is increased by 48% from Rs.55,328 Mn in Q3 FY 21 to Rs. 81,697 Mn in Q3 FY 22.*

(in INR Mn)

GOLD LOAN PORTFOLIO	Dec-20	Mar-21	Dec-21
Gold Loan – Agriculture	25,338	30,504	51,186
Gold Loan – Non-Agriculture	29,990	34,901	30,511
Total Gold Loans	55,328	65,405	81,697
Gross Advances	365,037	370,206	383,871
% of Gold Loans to Gross Advances	15%	18%	21%



Average LTV for Gold Loan at – 69%

Growth in Gold Loan – 48% (Dec-20 to Dec-21)

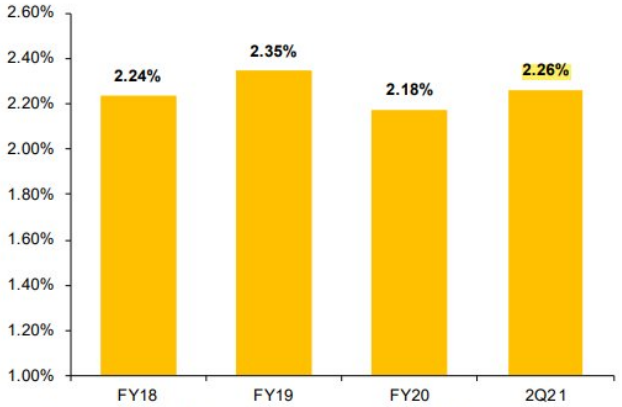
35

In Tamil Nadu itself they have the opportunity to grow and expand market share.

Their total market share in Tamil Nadu in Advances is 2.26% & in deposits its - 3.4%

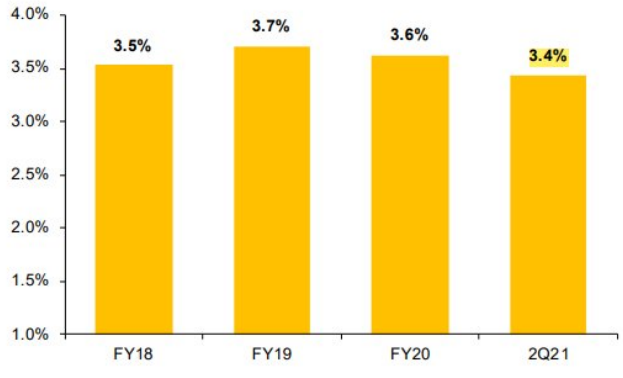
Huge Runway for growth in the state itself if they can capture market share.

Fig 17 CUBK - Loan market share in Tamil Nadu



Source: Company data, Macquarie Research, April 2021

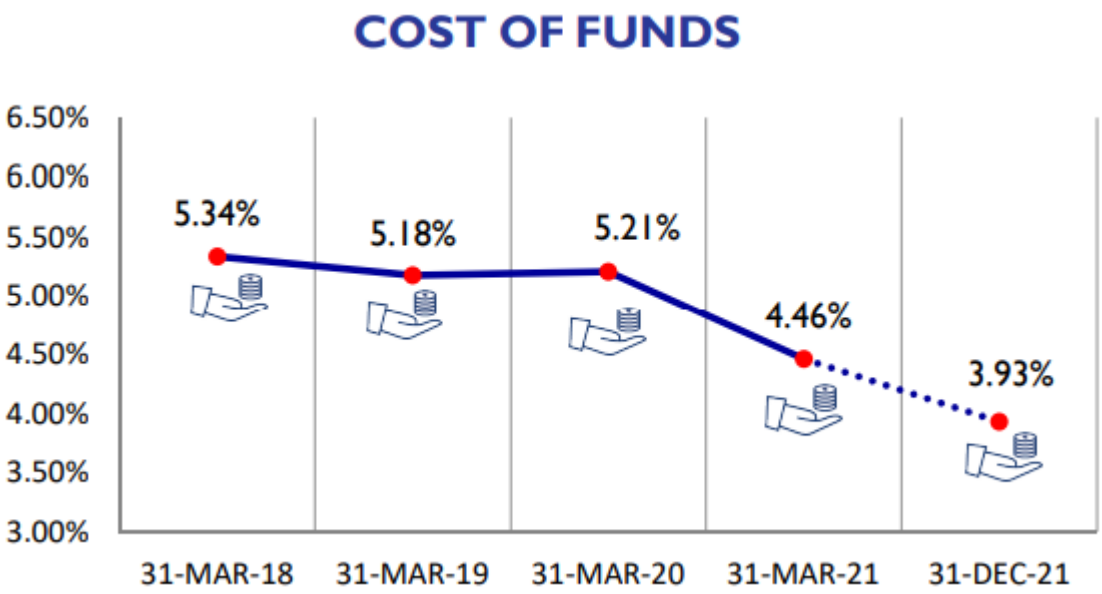
Fig 18 CUBK: Deposit market share in Tamil Nadu



Source: Company data, Macquarie Research, April 2021

If we take a look at the liability side, their Cost Of Funds has come down significantly to 3.93% (Although lower as compared to HDFC, KOTAK, ICICI)

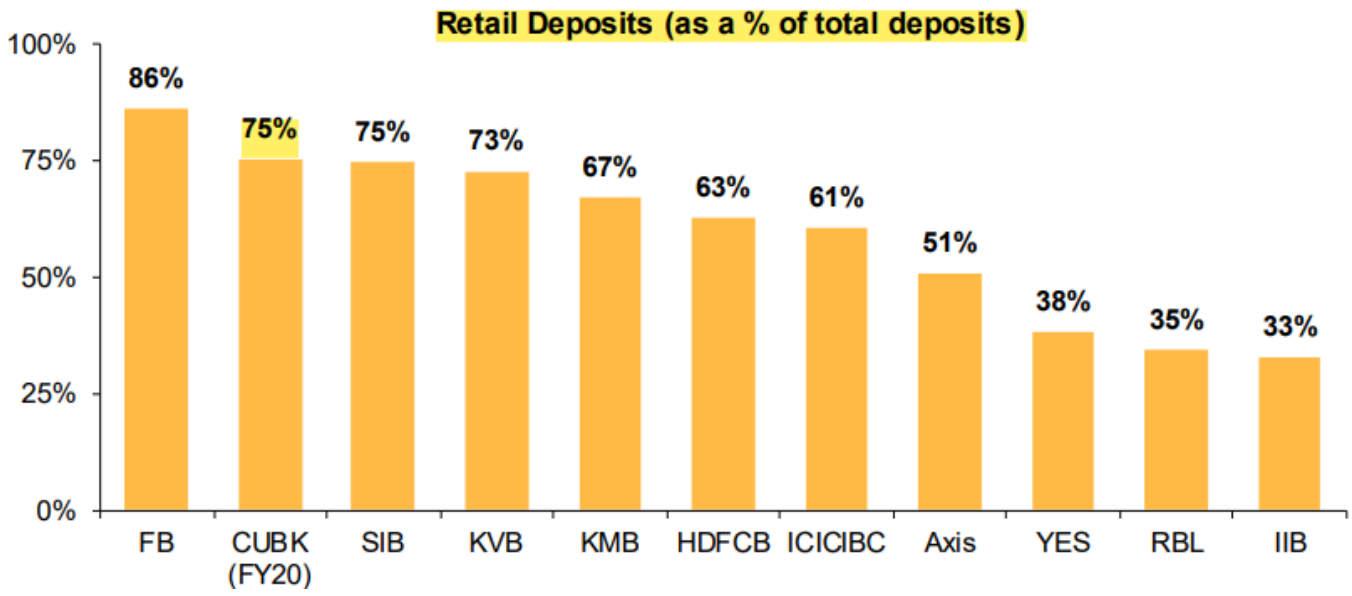
COF is high as compared to peers due to lower CASA - 32% (In the latest quarterly update, Q4FY22)



But good thing is, out of the CASA 75% are retail deposits.

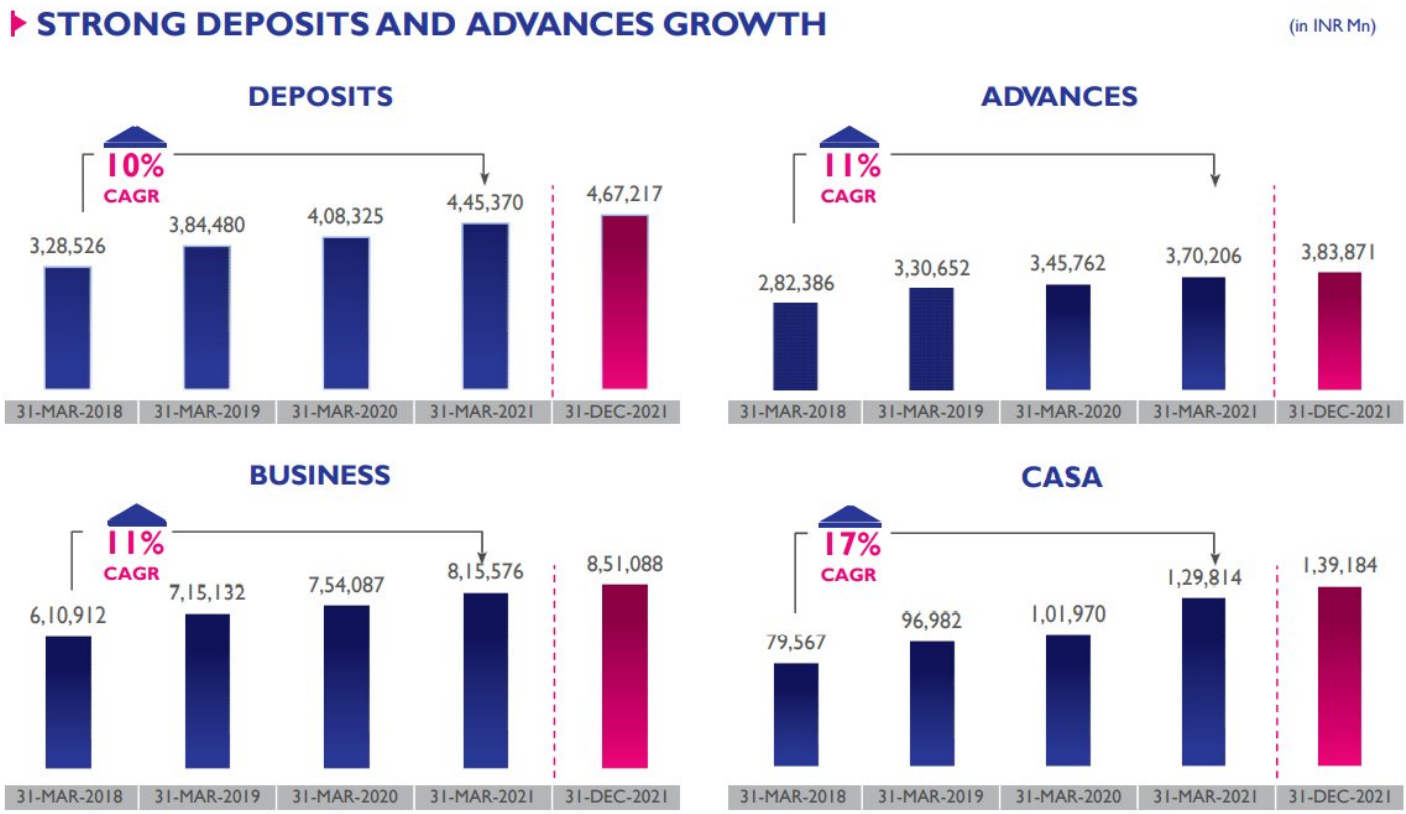
Concentration of top 20 Depositos is low around - 9%

and concentration of top 20 Advances is also low around - 5.4%



Advances CAGR from 2015-2021 has been around 14% (Which is lower as compared to big banks like Hdfc, ICICI etc)

And since 2018 it has been around 11%



If we take a look at the financials, Last 10 years topline growth has been around 14% (Similar to loan book growth) and bottomline has grown at 11% CAGR.

The has successfully maintained ROE of 14% from past 10 years, even in the downcycle.

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	TTM
Revenue	957	1,218	1,697	2,189	2,546	2,699	2,944	3,174	3,402	3,767	4,169	4,135	4,031
Interest	678	798	1,197	1,565	1,787	1,891	1,963	1,975	1,972	2,156	2,493	2,305	2,187
Expenses +	213	279	359	470	588	655	736	937	1,120	1,140	1,690	1,754	1,785
Financing Profit	**65**	**141**	**141**	**154**	**171**	**153**	**245**	**262**	**310**	**472**	**-15**	**76**	**59**
Financing Margin %	7%	12%	8%	7%	7%	6%	8%	8%	9%	13%	-0%	2%	1%
Other Income +	144	158	207	274	280	415	410	484	532	514	680	705	703
Depreciation	14	17	14	25	38	47	52	53	52	62	79	87	0
Profit before tax	**195**	**282**	**334**	**403**	**414**	**521**	**603**	**693**	**790**	**925**	**586**	**693**	**762**
Tax %	22%	24%	16%	20%	16%	24%	26%	27%	25%	26%	19%	14%	
Net Profit	**153**	**215**	**280**	**322**	**347**	**395**	**445**	**503**	**592**	**683**	**476**	**593**	**662**
EPS in Rs	2.52	3.51	4.54	4.94	5.29	5.47	6.14	6.91	8.10	9.30	6.46	8.02	8.95
Dividend Payout %	20%	16%	15%	15%	16%	17%	16%	4%	3%	5%	8%	6%	

Compounded Sales Growth	
10 Years:	13%
5 Years:	7%
3 Years:	7%
TTM:	-4%

Compounded Profit Growth	
10 Years:	11%
5 Years:	6%
3 Years:	0%
TTM:	71%

Stock Price CAGR	
10 Years:	15%
5 Years:	2%
3 Years:	-12%
1 Year:	-13%

Return on Equity	
10 Years:	14%
5 Years:	13%
3 Years:	12%
Last Year:	11%

But since covid, the situation has not been that great.

Deposits grew from 40k Cr in Q4 FY20 to 46K Cr in Q3FY22

Advances grew from 34k Cr to 38K Cr.

NIMs have remained stable around 4%

NPA shot up from 3% to >5%.

ROE dipped to 10-11%

ROA has been below 1.5%

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Deposit	408,325	410,259	414,206	432,883	445,370	446,059	463,161	467,217
Advances	345,762	345,356	354,368	365,037	370,206	363,955	380,122	383,871
GNPA	4.09%	3.90%	3.44%	2.94%	5.11%	5.59%	5.58%	5.21%
NNPA	2.29%	2.11%	1.81%	1.47%	2.97%	3.49%	3.48%	3.44%
NIM	3.91%	3.98%	4.12%	4.16%	3.72%	3.86%	4.03%	4.00%
ROA	-0.77%	1.23%	1.23%	1.29%	0.84%	1.29%	1.32%	1.36%
ROE	-7.22%	11.65%	11.50%	12.03%	7.85%	11.81%	11.96%	12.49%
EPS	-1.29	Rs.2.09	Rs.2.14	Rs.2.30	Rs.1.51	Rs.2.34	Rs.2.46	Rs.2.65
CRAR	16.76%	16.77%	17.36%	17.39%	19.52%	19.58%	19.24%	19.39%
Cost To Income	44.04%	40.42%	40.31%	43.04%	50.37%	40.46%	40.51%	43.13%
CASA	101,970	100,976	106,447	118,984	129,814	122,991	134,113	139,184
PCR	65%	68%	70%	73%	64%	63%	62%	62%
NET Profit	-953	1,540	1,577	1,699	1,112	1,730	1,821	1,961
Other Income	1,793	1,606	1,693	2,198	1,451	1,956	2,027	1,600
Provisions	4,304	2,020	2,270	2,885	1,735	2,100	2,230	1,735

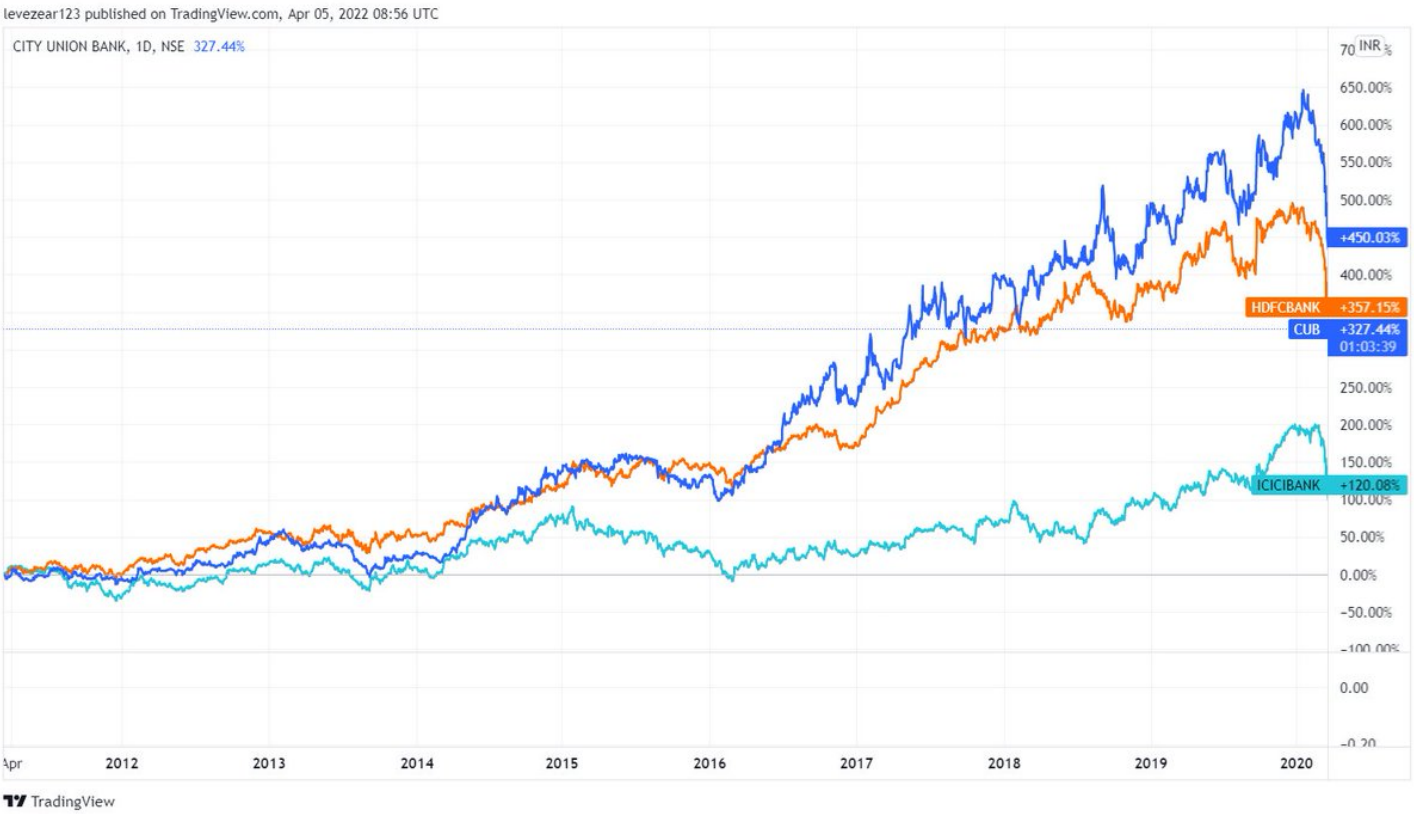
After the Covid fall, the share price has been laggard and that is mainly due to this sudden rise in NPA.

But after hitting a high of 5.59% in Q1FY22, NPAs have been coming down as thing are getting stable.

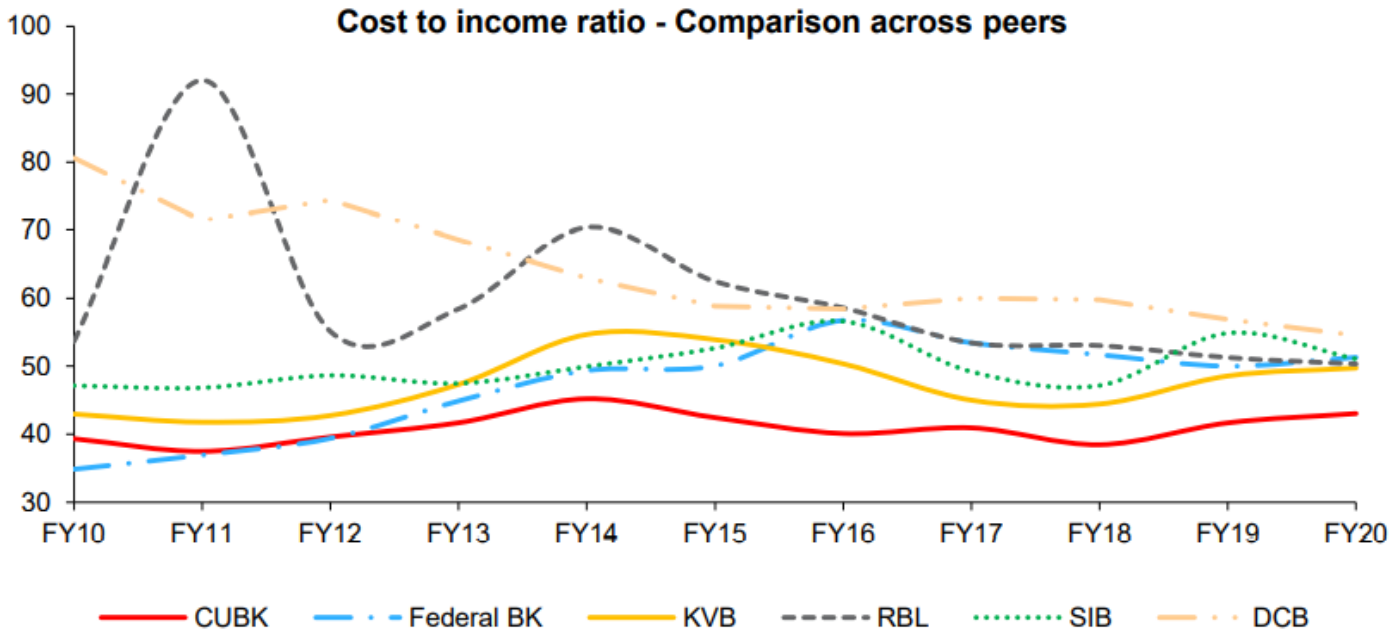


Before Covid has been a great wealth creator. Has outperformed HDFC Bank & ICIC Bank in terms of returns. Why?

- Have maintained ROA of > 1.5% from 2010-2020
- ROE >14%
- Around 1-1.2% Credit Cost (Even after giving high risk loans like MSME & Agriculture Loans)

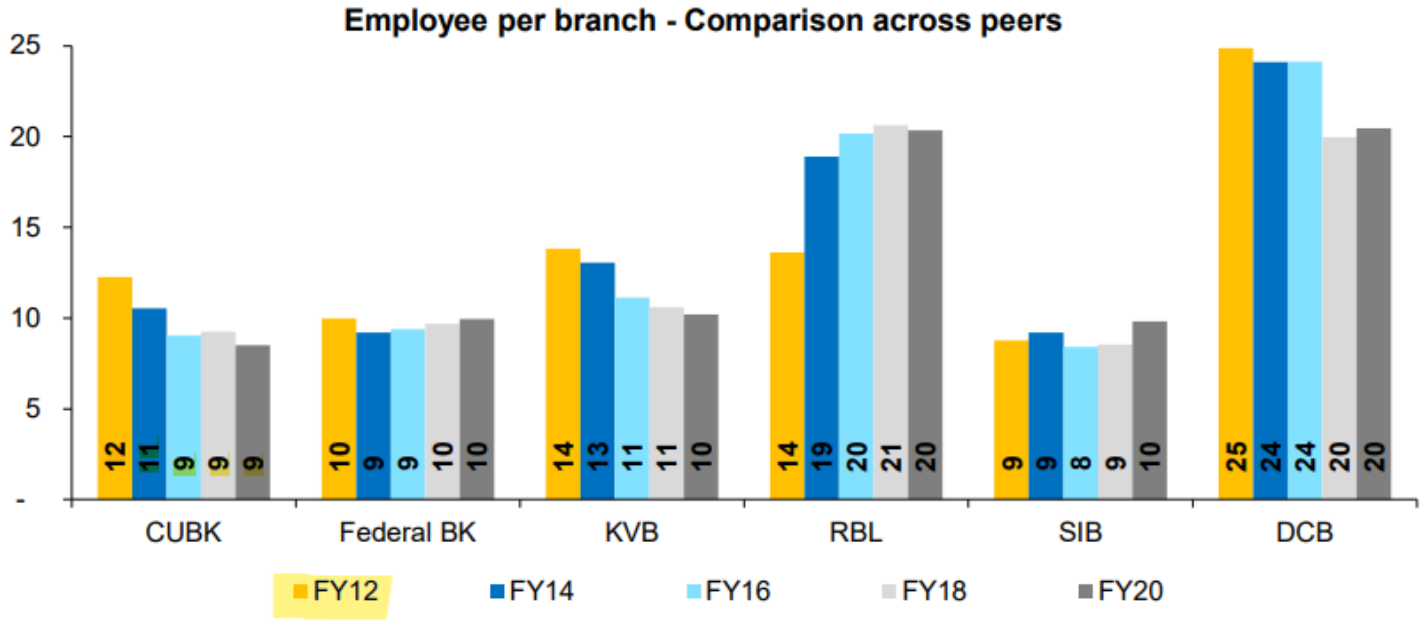


- No union strike in past 100 years of history
- 89% directors on board are independent directors
- Has added 45 branches & 300 employees every year from 2010-2020
- Cost to income Ratio has been lower around 40-43% , which is lower than it's peers.



- Have lower number of employees per branch as compared to peers and reducing them even further.

- Lower staff expense as compared to peers.

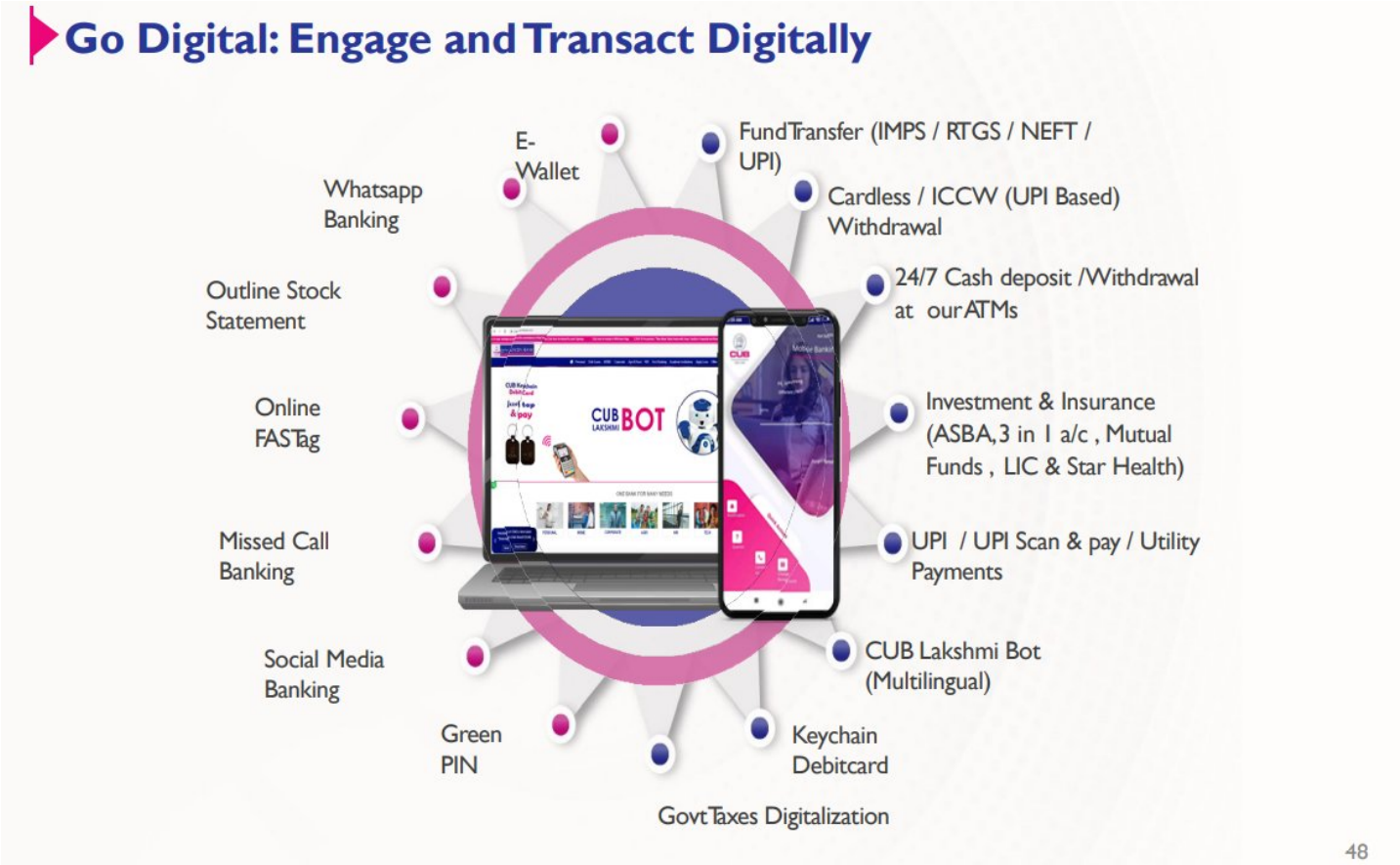


Have taken some digital initiatives like

- Fully integrated mobile banking App

- Key chain debit card & Smart watch payment system

- Was amongst the earliest bank to embark on digital journey, hired TCS for Core Banking Solutions back in around 2001.



Not a promoter run bank.

Mr N kamakodi one of the most trusted and respected banker have been the CEO since 2011



Shri. R. Mohan | B.Sc., MBA, CAIIB
Non-Executive Chairman
Shri. R. Mohan is qualified as bachelor of Science, Master of Business Administration and a CAIIB. Prior to joining the Board, he served as Chief General Manager of our Bank.



Smt.Abarna Bhaskar | BA., FCA
Director
Smt. Abarna Bhaskar is a practicing Chartered Accountant by profession and the first woman director of the Bank. She has served in senior positions with Foreign Banks abroad and a large private sector bank in India. She also holds expertise in Risk Management.



Shri. Subramaniam Narayanan |
PGDM-IIM(A), Chartered Accountant, FCS, CMA
Director
Shri. Subramaniam Narayanan posses rich experience in the areas of Business Management, Private Equity, Finance, Accountancy, Treasury & Risk Management , Information Technology and Payment & Settlements. He has held the position of CEO in First India Asset Management Company Ltd., and handled treasury services for Bank of America and Abu Dhabi Commercial Bank, UAE. Besides, he has been associated as Director in IT / Fintech Companies of repute for a longtime.



Dr.T.S. Sridhar IAS (Retd.) | M.A., Ph.D.
Director
Dr T.S. Sridhar is a Retd. IAS officer having 35 years of vast experience in all levels of administration and as Principal Secretary, he has expertise and knowledge on Rural economy, farm sector and Industries especially MSME. He was a Director on the Board of NABARD. He hold expertise in Human Resource and Economics as well.



Shri. T.K. Ramkumar | B.Com., B.L.
Director
Shri. T.K. Ramkumar is one of the leading Lawyers in Chennai possessing special knowledge and expertise in Banking law, Company law and Intellectual Property Rights. He is also an active environmentalist.



Dr N. Kamakodi | B.Tech., MBA., PhD., CAIIB
M.D. & C.E.O.
Dr. N. Kamakodi is serving as MD & CEO of the Bank from May 2011. He joined the Bank as DGM in the year 2003 and was elevated as GM in 2005 and later as Executive Director in 2006.



Shri. M. Narayanan | B.Sc. FCA, Grad CMA, DISA
Director
Shri. M. Narayanan is a practicing Chartered Accountant by profession and has handled Finance,Accounts and Taxation at various levels upto CFO while in service for over 20 years in companies of repute viz. BHEL, Dalmia Cements, Fenner, Ramco Cements and Dishnet etc. He is also an agriculturist and a qualified system Auditor.



Shri. V.N. Shiva Shankar | B.Com,ACS,ACMA, BL
Director
Shri. V.N. Shiva Shankar is a qualified Lawyer, Company Secretary and Cost Management Accountant with over 25 years of rich experience in Indian Corporate Law. He is also the founder of M/s VNS Legal Corporate Law firm based in Chennai which focuses on legal advisory services on Capital Market Regulation, Takeover Offers, Corporate Litigation, etc. He is a member of the Executive Committee in Southern India Chamber of Commerce. He has expertise in SEBI matters & Risk Management.



Shri. K. Vaidyanathan | B.Sc., FCMA, FCS
Director
Shri K. Vaidyanathan is a Fellow member of the Institute of Cost Management Accountants of India and also the Institute of Company Secretaries of India. He has over 40 years of rich domain experience in Financial and Management Accounting, Corporate Finance, Auditing and Regulatory Compliance. He is a Practicing Company Secretary. He also holds expertise in Compliance and Business management.

If we do the current NPA analysis - GNPA increased from 2.83% in 2017 to 5.21% in Q3 FY22 (Mainly due to Covid).

Good thing is, provisions have come down & new additions are also coming down.

Gold loan portfolio is strong with <1% NPA.

ASSET QUALITY POSITION – MOVEMENT OVER THE YEARS

(In INR MN)		FY MAR-17	FY MAR-18	FY MAR-19	FY MAR-20	FY MAR-21	Q3 FY 22	9M FY 22
NPA Opening balance		**5,120**	**6,820**	**8,565**	**9,771**	**14,134**	**21,193**	**18,932**
Additions	A	4,796	5,749	6,322	11,104	11,131	2,753	10,549
Recovery made		905	1,623	1,980	1,644	1,950	1,340	3,000
Upgradations		556	433	496	1,358	264	519	956
Net Addition	B	3,335	3,693	3,846	8,102	8,917	894	6,593
Write-off		1,635	1,948	2,640	3,739	4,119	2,101	5,539
NPA Closing balance		**6,820**	**8,565**	**9,771**	**14,134**	**18,932**	**19,986**	**19,986**
Technical Write-off (TW) during the period		1,564	1,836	2,565	3,670	3,961	2,007	5,174
Provision made during the period	C	**2,515**	**3,030**	**2,700**	**6,310**	**5,990**	**875**	**4,385**
TW recovery	D	470	704	898	1,090	1,033	424	1,222
Provision made net of TW Recovery	E=C-D	**2,045**	**2,326**	**1,802**	**5,220**	**4,957**	**451**	**3,163**
Gross Advance	F	2,41,125	2,82,386	3,30,652	3,45,762	3,70,205	3,83,871	3.83,871
Additions % of Gross Advance	A / F	**1.99**	**2.04**	**1.91**	**3.21**	**3.01**	**0.72**	**2.75**
Net Addition % of Gross Advance	B / F	**1.38**	**1.31**	**1.16**	**2.34**	**2.41**	**0.23**	**1.72**
Credit cost	E / F	**0.85**	**0.82**	**0.54**	**1.51**	**1.34**	**0.12**	**0.82**
Gross NPA %		2.83	3.03	2.95	4.09	5.11	5.21	5.21
Net NPA %		1.71	1.70	1.81	2.29	2.97	3.44	3.44

Total recovery touched 3000 Mn in 9M FY 22, which is much better than historical highest level of Rs.1,980 Mn collected for full FY 18-19

Total restructured account are around 5.74% of the total advances.

Total no. of restructured accounts have come down QoQ.

Bank holds around 1400 Cr provision for restructures accounts.

RESTRUCTURED ACCOUNTS

During Q3 FY 22, we have restructured 9 standard borrower accounts to the tune of Rs.137 Mn under MSME.

Quarterwise balance outstanding in respect of Restructured Standard borrowers

(In INR MN)

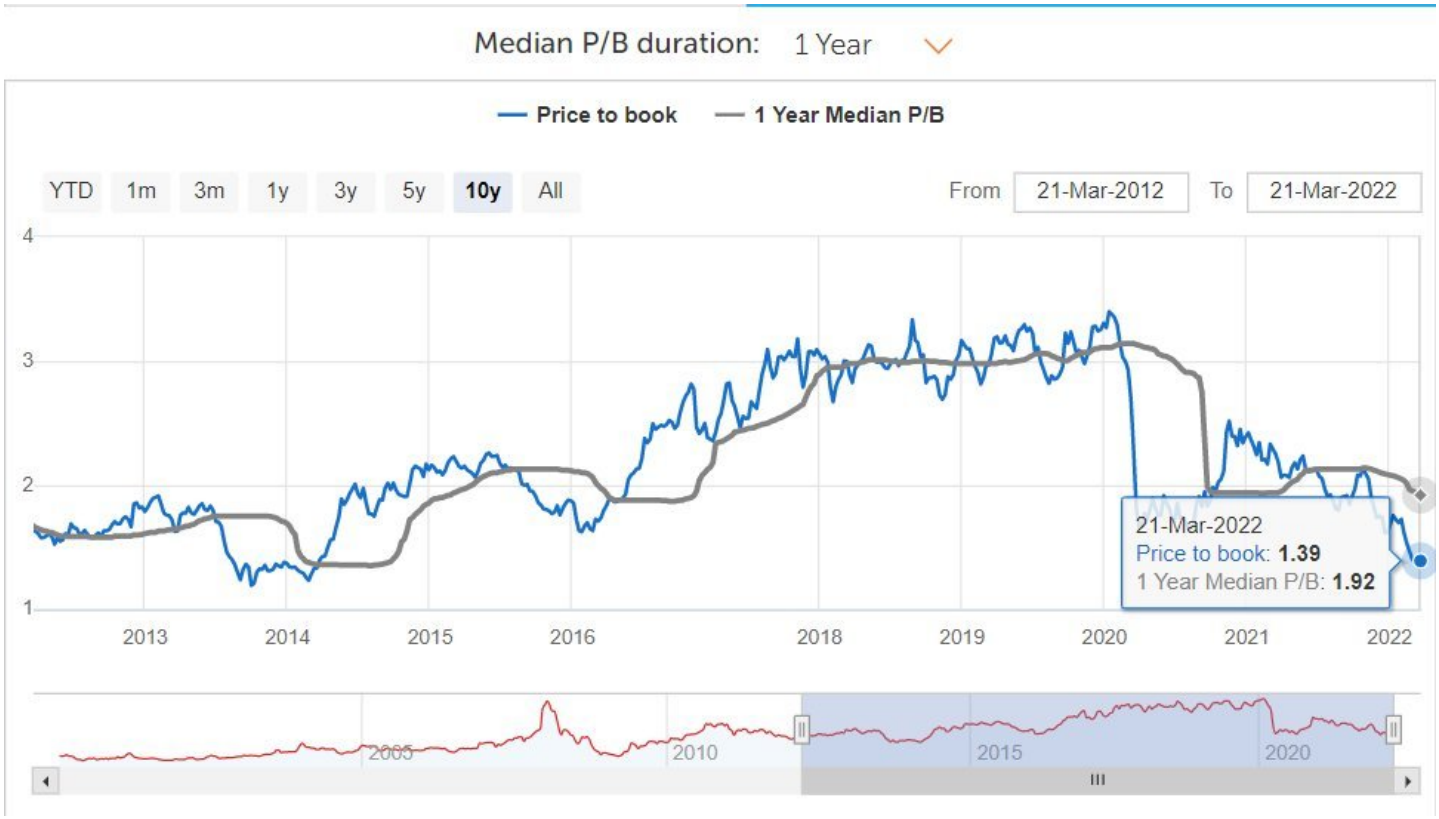
Type of Restructuring	Dec-20		Mar-21		Jun-21		Sep-21		Dec-21	
	No. of Borrowers	Amt	No. of Borrowers	Amt	No. of Borrowers	Amt	No. of Borrowers	Amt	No. of Borrowers	Amt
MSME	191	7851	305	12319	299	12629	333	15398	314	15226
Non – MSME	42	219	35	224	33	218	31	220	-	-
Covid-19 Resolution Framework			949	5950	1356	6996	1612	6860	1563	6795
Total	**233**	**8070**	**1289**	**18493**	**1688**	**19843**	**1976**	**22478**	**1877**	**22021**

- *The above disclosure is in respect of Restructured Standard Accounts excluding NPA*
- *Restructured Standard Advances to Gross Advances – 5.74% as on Dec-21*
- *As of 9M FY 22, the total outstanding restructured Standard borrower accounts was 1877 in numbers and amounting to Rs.22,021 mn. The Bank hold a standard accounts provision wrt Restructured accounts to the tune of Rs.1,651 mn and Rs.464 mn towards erosion on fair value of accounts.*

Given the quality of management and past track record of maintaining 14% loan book growth with stable asset quality and ROA >1.5% AND ROE >14%.

Currently available near decade low p/b can be a good opportunity.

Disclosure - Invested, Not a recommendation



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