City Union Bank Limited

April 13, 2017

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds	10	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Total	**10 (Rupees Ten crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the lower Tier II Bonds issue of City Union Bank Limited (CUBL) continues to derive strength from its long-standing operations, its healthy profitability arising out of operational efficiency & significant presence in Micro Small and Medium Enterprises (MSME) segment and comfortable capitalization levels. The rating, however, is constrained by CUBL's relatively small size, regional concentration and moderation in asset quality indicators during FY16 (refers to the period April 1 to March 31) and 9MFY17 (refers to the period April 1 to December 31). The rating also takes note of slight improvement in CASA during the period.

Going forward, the ability of CUBL to manage asset quality and prevent major slippages given the bank's target segment comprising MSME, maintain its profitability and capitalization at healthy levels would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing track record

Incorporated in 1904, CUBL has a long-standing track record of operations for more than 110 years. Over the years, the bank has established strong presence in South India, particularly within Tamil Nadu.

Stable business growth

During FY16, net advances grew by 17% (PY: 12%) to Rs.21,057 crore. CUBL's advances profile is majorly made up of advances from retail segment (44% of net advances as on March 31, 2016) followed by corporate segment mainly consisting of MSME clients (33% of net advances as on March 31, 2016). Deposits grew by 13% during FY16 to Rs.27,158 crore, of which CASA grew by 19%.

As at the end of December 2016, net advances grew by 12% (y-o-y) and stood at Rs.21,515 crore, whereas deposits grew by 16% (y-o-y) and stood at Rs.29,986 crore.

Healthy profitability and operational efficiency metrics

CUBL has been consistently reporting healthy profitability parameters. The interest spreads are relatively higher as the bank caters mainly to the SME/ retail segments and trading companies where the yields are higher. Despite increase in NIM, due to increase in NPA provisioning from Rs.165 crore in FY15 to Rs.205 crore in FY16, ROTA remained stable at 1.50% (PY: 1.49%).

Comfortable capitalization levels

The bank continues to be comfortably capitalised with total CAR at 15.58% (PY: 16.52%) and Tier I CAR at 15.09% (PY: 16.03%) as on March 31, 2016. The healthy Tier-I capital mix provides the bank with significant headroom for raising tier II capital to fund the growth in its asset book going forward. As on December 31, 2016, total CAR stood at 14.88% with tier I CAR at 14.39%.

Key Rating Weaknesses

Moderate asset quality

Amidst the asset quality issues faced in the banking industry, asset quality indicators of CUBL slightly moderated during FY16. As on March 31, 2016, Gross and Net NPA ratios moderated to 2.41% (PY: 1.86%) and 1.53% (1.30%) respectively. As on December 31, 2016, Gross and Net NPA ratios stood at 2.98% and 1.72%, respectively. Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA/NNPA) stood at 5.13% (PY: 5.36%) to gross advances and 29.52% (PY: 32.17%) to Networth as on March 31, 2016.

On account of relatively lower share of large corporate advances, CUBL has been able to manage its asset quality despite the banking industry facing sharp decline in asset quality due to slippages in corporate advances.

Geographical concentration and relatively small size of operations

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The bank's operations are mainly concentrated in South India especially in the state of Tamil Nadu. As on December 31, 2016, 69% of the total branch network was situated within Tamil Nadu, whereas the five South Indian States collectively accounted for 89% of total branch network.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Ratios-Financial Sector
CARE's Rating methodology for banks

About the Company
City Union Bank Limited (CUBL) is an old private sector bank with significant presence in Southern India, especially Tamil Nadu. As on March 31, 2016, the bank had a network of 525 branches and 1,325 ATMs, with a deposit base of Rs.27,158 crore and gross advances of Rs.21,253 crore.
For FY16, CUBL reported PAT of Rs.445 crore on total income of Rs.3,354 crore. Total Capital Adequacy Ratio (CAR) stood at 15.58% with Gross NPA ratio of 2.41% and Net NPA ratio of 1.53% as on March 31, 2016. For 9MFY17, CUBL reported PAT of Rs.374 crore on total income of Rs.2,732 crore with total CAR of 14.88% as on December 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	March 30, 2007	10.00%	April 30, 2017	10.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier II	LT	10.00	CARE A+; Stable	-	-	1)CARE A+ (14-Mar-16)	1)CARE A+ (05-Dec-14)

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