

04 March 2025

India | Equity Research | Company Update

City Union Bank

Banking

Improving resilience on NIM/growth; risk-reward favourable at current valuations

We upgrade City Union Bank (CUBK) to **BUY** with an unchanged target price of INR 200, valuing the stock at ~1.45x FY26E ABV, broadly in-line with forward RoAs. Post ~17% stock price correction in the last month, CUBK's valuation at ~1.1x forward book is near its lowest in the last three years – juxtaposed with an improved growth outlook and NIM resilience. While yield pressure in the rate easing cycle is comparable to peers, the recent downward revision (50–75bps in select buckets) in savings rate balances should cushion the bank's NIM profile ahead. Amidst systemic moderation in growth, management remains confident of 12–14% YoY credit growth and negative slippages in the near term. Concerns emanating from the gold loan circular and draft guidelines on foreclosures charges seems overdone. **Key risk:** Slower-than-expected growth.

50–75bps cut in SA rate for select buckets – should cushion NIM

CUBK's loan mix – 40% linked to EBLR (faster rate transmission) and ~48% linked to MCLR (gradual transmission) – is broadly similar to its peers, and thus, yield compression should be comparable in the ongoing easing cycle. However, the bank believes there is room to increase spread for better yield management alongside improved credit demand/delivery. Importantly, CUBK has lowered its SA balance's rates by 50–75bps for lower buckets, effective mid-Feb'25. It continues to offer 4%/5% rates for higher buckets. The SA balances' rate trim should partly offset yield compression and cushion NIM in coming quarters, in our view. We would monitor the SA balances flow, but note that some of its peers offer similar (or even lower) rates for SA.

Additional ED to ensure seamless management succession

The bank has received RBI approval for the appointment of Mr Ramesh Venkataraman, currently Senior General Manager, as Executive Director (ED). Appointment of the additional ED (now two EDs) should ensure seamless management succession as incumbent MD & CEO's term ends in Apr'26.

Regulatory risks appear less worrisome

The bank has ~25% share of gold loans in the overall loans. For most of FY24, its agri gold book saw significant fine-tuning of the product and growth challenges. Post the recalibration, CUBK is confident that the new circular on gold loans shall have little impact on growth.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
NII (INR bn)	21.2	23.1	25.1	29.6
Op. profit (INR bn)	15.2	16.2	17.5	21.2
Net Profit (INR bn)	10.2	10.8	11.5	13.8
EPS (INR)	13.7	14.6	15.5	18.7
EPS % change YoY	8.3	6.6	6.3	20.3
ABV (INR)	104.4	120.4	136.3	153.7
P/BV (x)	1.3	1.2	1.1	0.9
P/ABV (x)	1.4	1.2	1.1	1.0
Return on Assets (%)	1.5	1.5	1.4	1.5
Return on Equity (%)	12.8	12.2	11.6	12.5

Jai Prakash Mundhra

jai.mundhra@icicisecurities.com
+91 22 6807 7572

Hardik Shah

hardik.shah@icicisecurities.com

Market Data

Market Cap (INR)	111bn
Market Cap (USD)	1,268mn
Bloomberg Code	CUBK IN
Reuters Code	CTBK.BO
52-week Range (INR)	188 /125
Free Float (%)	97.0
ADTV-3M (mn) (USD)	4.6

Price Performance (%)	3m	6m	12m
Absolute	(18.3)	(11.8)	8.4
Relative to Sensex	(8.6)	(0.5)	9.5

ESG Score	2023	2024	Change
ESG score	69.5	67.8	(1.7)
Environment	50.7	48.9	(1.8)
Social	55.8	59.9	4.1
Governance	85.8	82.8	(3.0)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
PAT	0	0

Previous Reports

20-02-2025: [Banking: Q3FY25 review](#)

01-02-2025: [Q3FY25 results review](#)

RBI has issued a draft circular [\(link\)](#) in Feb'25, proposing no foreclosures charges on floating-rate MSME loans up to INR 75mn. As per management, the bank already adheres to this; thus, there is no change needed. In fact, CUBK sees an opportunity to levy the charges on loans above INR 75mn. We believe, the proposed circular, if implemented, could lead to higher churn across the banking system, including at CUBK, due to higher competition as exit cost (to the borrower) would reduce dramatically.

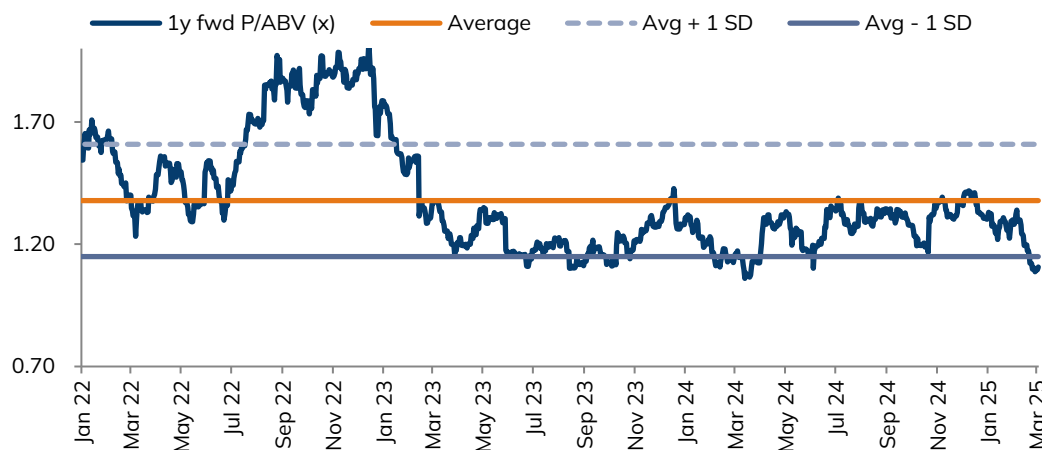
Upgrade to BUY; INR 200 TP unchanged

CUBK had posted healthy Q3FY25 numbers with unchanged growth guidance. However, its stock price has corrected ~17% in the last one month – influenced by multiple factors, including a technical reason of the stock exiting from future & options. Concerns on NIM pressure, post RBI's repo rate cut, are partly offset by the bank's slash in saving rate. The draft circular on foreclosures should not materially impact fee profile, though, could lead to higher churn, in our view. The appointment of the second ED should also ensure seamless MD & CEO succession next year, in our view. The bank maintains that the new RBI circular on gold loans has no material implication on gold loan growth ahead.

The stock trades at ~1.1x FY26E ABV and ~1x FY27E ABV. The current valuation is at its lowest in the last three years while the growth outlook has been relatively better ahead. We estimate unchanged ~13.5%/15.3% YoY loan growth for FY25/FY26 given CUBK's improved credit delivery and its healthy LDR (~85%) and LCR (123%) profile.

Our estimates are broadly unchanged. We continue to value the stock at ~1.45x FY26E ABV, broadly in-line with FY26E RoA of ~1.4%. We upgrade the stock to **BUY** (vs. *Add* earlier) with an unchanged target price of INR 200. **Key risk:** Slower-than-expected growth impacting profitability.

Exhibit 1: Valuation at lowest levels in last 3 years; growth outlook and NIM resilience seem to have improved

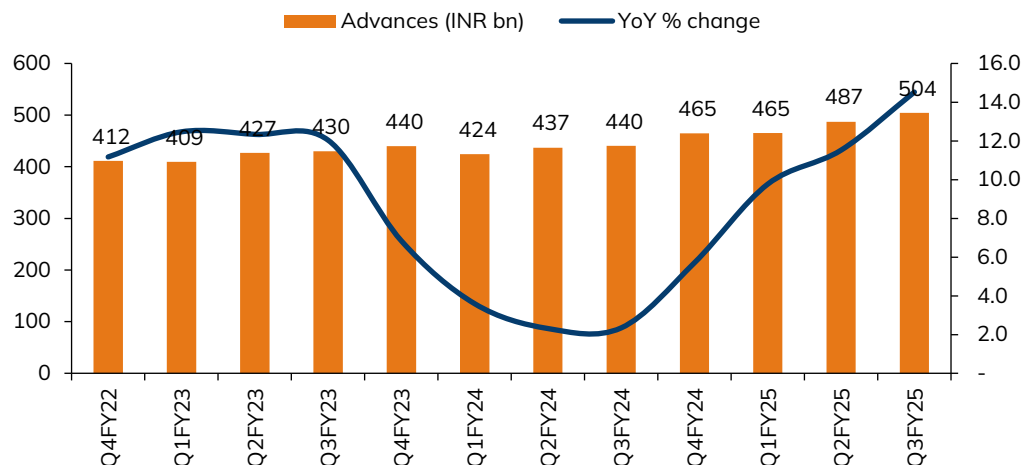


Source: I-Sec research, Bloomberg

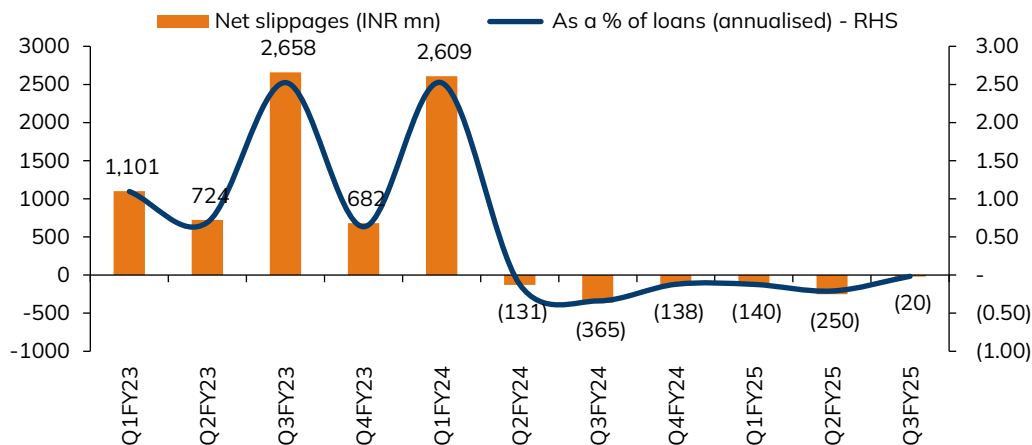
Exhibit 2: Cut in SA rates by 50–75bps in early buckets should cushion NIM

Savings rate (%)	Mar-22	Mar-23	Mar-24	Jun-24	Sep-24	Dec-24	Jan-25	Feb-25
Upto INR 0.1 mn	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75
INR 0.1 mn - INR 0.5 mn	3.50	3.50	3.50	3.50	3.50	3.50	3.50	2.75
INR 0.5 mn - INR 1 mn	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.00
INR 1 mn - INR 2.5 mn	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.50
INR 2.5mn - INR 500 mn	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Above INR 500 mn	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

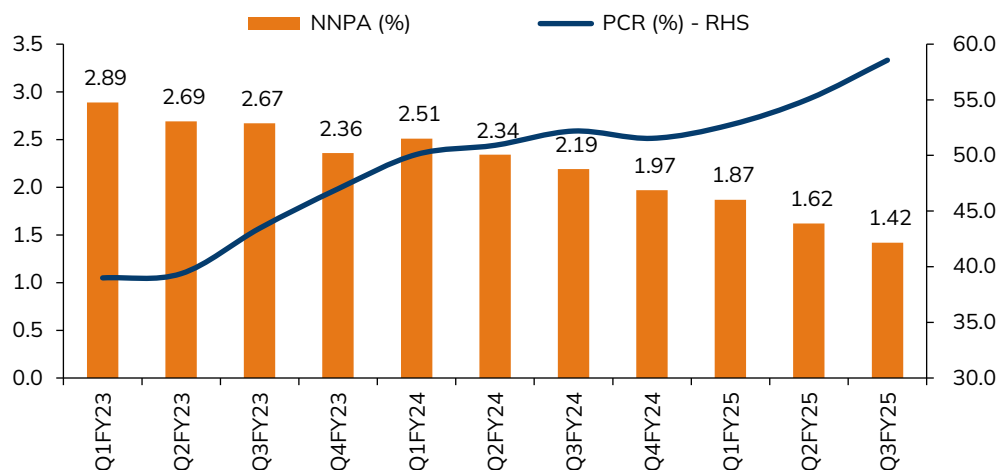
Source: Company data, I-Sec research

Exhibit 3: Advances growth improving; FY25 guidance unchanged at 12–14% YoY

Source: Company data, I-Sec research

Exhibit 4: Net slippages negative for six consecutive quarters

Source: Company data, I-Sec research

Exhibit 5: NNPA ratio trending lower with PCR rising

Source: Company data, I-Sec research

Exhibit 6: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	0.0	0.0	0.0
Institutional investors	57.6	59.6	61.0
MFs and others	27.0	29.5	28.6
FIs/Banks	0.5	0.6	0.6
Insurance	3.7	3.5	3.8
FIIIs	26.4	26.0	28.0
Others	42.4	40.4	39.0

Source: Bloomberg, I-Sec research

Exhibit 7: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Interest income	52,706	58,256	63,829	73,297
Interest expense	31,471	35,144	38,735	43,665
Net interest income	21,235	23,112	25,094	29,632
Non-interest income	7,417	8,478	9,891	11,401
Operating income	28,651	31,590	34,985	41,033
Operating expense	13,484	15,395	17,485	19,789
Staff expense	6,138	7,241	8,385	9,540
Operating profit	15,167	16,195	17,500	21,244
Core operating profit	14,651	15,495	16,600	20,344
Provisions & Contingencies	2,860	2,658	3,115	3,945
Pre-tax profit	12,307	13,537	14,384	17,299
Tax (current + deferred)	2,150	2,707	2,877	3,460
Net Profit	10,157	10,830	11,508	13,839
Adjusted net profit	10,157	10,830	11,508	13,839

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash and balance with RBI/Banks	69,435	70,724	73,662	77,262
Investments	1,56,641	1,52,611	1,67,301	1,86,361
Advances	4,55,257	5,16,718	5,95,704	6,85,970
Fixed assets	2,704	2,953	3,369	3,844
Other assets	24,221	28,522	33,867	40,542
Total assets	7,08,259	7,71,529	8,73,904	9,93,978
Deposits	5,56,566	6,07,559	6,99,464	8,00,785
Borrowings	47,242	35,388	37,158	39,015
Other liabilities and provisions	20,436	34,664	32,967	37,135
Share capital	741	741	741	741
Reserve & surplus	83,274	93,178	1,03,574	1,16,302
Total equity & liabilities	7,08,259	7,71,529	8,73,904	9,93,978
% Growth	6.4	8.9	13.3	13.7

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	741	741	741	741
Adjusted EPS	13.7	14.6	15.5	18.7
Book Value per share	113	127	141	158
Adjusted BVPS	104	120	136	154
Valuation ratio				
PER (x)	10.9	10.2	9.6	8.0
Price/ Book (x)	1.3	1.2	1.1	0.9
Price/ Adjusted book (x)	1.4	1.2	1.1	1.0
Dividend Yield (%)	1.0	0.8	1.0	1.0
Profitability ratios (%)				
Yield on advances	9.4	9.6	9.3	9.3
Yields on Assets	7.7	7.9	7.8	7.8
Cost of deposits	5.4	5.5	5.4	5.3
Cost of funds	4.6	4.7	4.7	4.7
NIMs	3.3	3.3	3.2	3.3
Cost/Income	47.1	48.7	50.0	48.2
Dupont Analysis (as % of Avg Assets)				
Interest Income	7.7	7.9	7.8	7.8
Interest expended	4.6	4.7	4.7	4.7
Net Interest Income	3.1	3.1	3.1	3.2
Non-interest income	1.1	1.1	1.2	1.2
Trading gains	0.1	0.1	0.1	0.1
Fee income	1.0	1.1	1.1	1.1
Total Income	4.2	4.3	4.3	4.4
Total Cost	2.0	2.1	2.1	2.1
Staff costs	0.9	1.0	1.0	1.0
Non-staff costs	1.1	1.1	1.1	1.1
Operating Profit	2.2	2.2	2.1	2.3
Core Operating Profit	2.1	2.1	2.0	2.2
Non-tax Provisions	0.4	0.4	0.4	0.4
PBT	1.8	1.8	1.7	1.9
Tax Provisions	0.3	0.4	0.3	0.4
Return on Assets (%)	1.5	1.5	1.4	1.5
Leverage (x)	8.7	8.3	8.3	8.4
Return on Equity (%)	12.8	12.2	11.6	12.5
Asset quality ratios (%)				
Gross NPA	4.0	3.2	2.5	2.2
Net NPA	2.0	1.2	0.8	0.6
PCR	51.5	62.0	70.0	72.0
Gross Slippages	2.4	1.7	1.5	2.0
LLP / Avg loans	0.7	0.7	0.7	0.7
Total provisions / Avg loans	0.6	0.5	0.6	0.6
Net NPA / Networth	10.7	6.8	4.3	3.7
Capitalisation ratios (%)				
Core Equity Tier 1	22.7	22.2	20.7	20.5
Tier 1 cap. adequacy	22.7	22.2	20.7	20.5
Total cap. adequacy	23.7	23.1	21.5	21.2

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com and Kadambari_balachandran@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Jai Prakash Mundhra, MBA; Hardik Shah, CA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Bhavesh Soni](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
