

City Union Bank (CUB)

BUY

NIMs stable QoQ; Credit growth guidance maintained

Summary

CUB reported strong credit growth at 14% YoY (FY25) Vs 6% YoY (FY24) as digitisation of lending process supported the decline in TAT. Credit growth improvement led by gold loan and MSME segment. Management guided credit growth to be better than industry average by 200-300bps for FY26. NIMs remain stable at 3.6% led by increase in yield on advances. Asset quality improved as GNPA stood at 3.09% vs 3.36% led by higher write offs. Standard restructured assets stood at 1.3% vs 1.54%. PAT grew by 13% YoY led by higher provisions. NII grew by 10% YoY led by decline in NIMs. Thus, RoA remained stable at 1.5%; management guided for RoA to be maintained around 1.5% in FY26 backed by improvement in asset quality. We have largely maintained estimates and 'BUY' rating with TP of Rs.215 valuing it at 1.4x P/ABV FY27E.

Key Highlights and Investment Rationale

- **Credit growth improved:** Credit growth improved to 14% YoY (6% YoY FY24) led by traditional loan segments. JL non-Agri book grew by 37% YoY. MSME book grew by 23% YoY while management guided for double digit growth for FY26. We expect 14% CAGR (FY25-27E) credit growth.
- **NIMs stable; Cost to income ratio declined:** NIMs stable at 3.6% vs 3.58% QoQ led by increase in yield on advances. Cost to income ratio increased to 48.2% vs 46.6% QoQ led by higher operating expenses.
- **Asset quality improved:** Asset quality improved with GNPA at 3.09% vs 3.36% QoQ; led by higher write offs; slippage ratio stood at 2.0% vs 1.6% QoQ.
- **Outlook:** Credit growth has improved during FY25 in line with pre-pandemic double digit growth. Sustainable return ratios along with better than industry credit growth should support re-rating.

TP Rs 215
CMP Rs174

Potential upside/downside 24%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.2	1.7	7.1
Rel to Sensex	2.1	(2.2)	(0.8)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	17.0	19.3
Consensus	16.6	18.8
% difference	2.5	2.8

Key Stock Data

Bloomberg / Reuters	CUBK IN / CTBK.BO
Sector	Banking
Shares o/s (mn)	741
Market cap. (Rs mn)	128,598
3-m daily avg Trd value (Rs mn)	27.3
52-week high / low	Rs188 / 131
Sensex / Nifty	80,502 / 24,347

Shareholding Pattern (%)

Promoters	0.0
FII	28.0
DII	32.5
Public	39.4

Financial snapshot

(Rs mn)

Year	FY2023	FY2024	FY2025	FY2026E	FY2027E
NII	21,628	21,235	23,157	26,509	30,065
Change (yoy, %)	13%	-2%	9%	14%	13%
Net Profit	9,375	10,157	11,236	12,565	14,277
Change (yoy, %)	23%	8%	11%	12%	14%
EPS (Rs)	12.7	13.7	15.2	17.0	19.3
Change (yoy, %)	23%	8%	11%	12%	14%
ABV (Rs)	90.4	104.3	121.1	136.5	153.6
PER (x)	13.7	12.7	11.4	10.2	9.0
P/ABV (x)	1.9	1.7	1.4	1.3	1.1
ROE (%)	13.4	12.8	12.6	12.5	12.7
ROA (%)	1.5	1.5	1.5	1.5	1.5
GNPA (%)	4.4	4.0	3.1	2.7	2.6
NNPA (%)	2.4	2.0	1.3	1.1	1.0
CAR (%)	22.3	23.7	23.8	22.5	22.2

Source: IDBI Capital Research

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Conference Call Highlights

Operational Aspects

- The cost to income ratio will trend down after the full effect of digital lending starts impacting positively on the balance sheet.
- Insurance commission increased 79% from Rs.550mn last year to Rs.980mn this year.
- Total disbursements stood at Rs.100bn in FY25.
- Total risk weighted assets (RWA) stood at Rs.399bn.

Margins

- The bank had reduced savings account rates by 25 bps in Feb, and term deposit rates in April, the benefit of which will be seen in next 2-3 quarters on cost of deposits.
- The bank migrated gold loan book from floating rate book to fixed rate book in July 2024.
- Around 31% of the loan book is linked to fixed rate.
- The average yield declined 10 bps following the 25 bps repo rate cut.
- The estimated impact in case of 100 bps cumulative repo rate cut on blended yield would be 50-75 bps.
- The bank passed on the benefit of 1st rate cut in February 2025, and the benefit of 2nd rate cut will be passed on in 1st week of May 2025.
- Yield improvement was primarily due to moving away from IBPC and low-yielding NBFCs.

Advances

- The bank decided to not renew IPBC worth Rs.11bn and move away from low yielding NBFCs worth Rs.1.5bn during the year.
- The bank had signed partnership with IPL franchises--CSK and SRH--for co-branded credit card and banking partners respectively. It went live on April 2025.
- The current level of credit growth is being achieved mainly due to growth in MSME and gold portfolio.

- Personal loan portfolio largely includes loan given to existing MSME borrowers who have a collateral with the bank.
- Around 25% of the CC comes for renewal every year.
- Out of total credit growth of Rs.65bn in FY26, around ~Rs.40-45bn is from MSME segment.
- The bank has exposure in single digits to the export-oriented MSMEs.
- Home loan has shown a decent growth, while LAP portfolio has grown in double digits. The bank has also entered into affordable housing finance segment, and has hired new employees.
- The bank will opt for direct sales agents to source LAP business, in North and West regions.
- Retail credit growth will come from across pan India.

Asset Quality

- Total recovery stood at Rs.10.42bn in FY25. Of this, Rs.8.34bn is from live NPA and the rest from technically written off accounts.
- Overall SMA stands at 1.10% in Q4FY25 compared to 2.08% last year.
- The bank will have extra provision for assets that move from Doubtful 1 account to Doubtful 2 account.

Future Guidance

- Cost to income is seen in the range of 48-50% in FY26 due to some expenses on retail verticals during the year.
- NIM is seen in the range of 3.5-3.7% in FY26. NIM expansion will be aided by strong growth in MSME, JL and retail credit growth, as well as cut in deposit rates.
- Credit growth will be 2-3% higher than systemic growth in FY26.
- Deposit will be in similar lines of credit growth. CD ratio is expected to be ~85% in FY26.
- The bank expects retail credit to significantly contribute to overall credit growth in FY26.
- The bank expects gold loan portfolio to grow at a similar rate going ahead.

- Slippages is expected to be around Rs.6.5-7.0 bn in FY26. However, recoveries will remain higher than slippages.
- The bank will continuously work towards improving the ROA going ahead.
- The bank will be fine tuning insurance income growth going ahead, while fee income growth will depend on the credit growth.
- Retail credit portfolio is expected to grow to Rs.30bn in FY26 from Rs.10bn in FY25.
- The bank plans to add 50-75 new branches in FY26, taking the total branch network to 925-950.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY25	Q4FY24	Q3FY25	YoY (%)	QoQ (%)
Interest Income	15,327	13,741	14,787	11.5	3.7
Interest Expenses	9,324	8,275	8,910	12.7	4.6
Net Interest Income	6,003	5,466	5,877	9.8	2.1
NIM (%)	3.60	3.66	3.58	-6 bps	2 bps
Non-Interest Income	2,512	1,752	2,284	43.4	10.0
Operating Income	8,515	7,218	8,161	18.0	4.3
Staff Cost	1,965	1,678	1,785	17.1	10.1
Other Op Exp	2,140	2,022	2,016	5.9	6.2
Total Operating Expenses	4,106	3,700	3,801	11.0	8.0
<i>Cost to Income (%)</i>	<i>48.2</i>	<i>51.3</i>	<i>46.6</i>	<i>-304 bps</i>	<i>164 bps</i>
Operating Profit	4,410	3,518	4,360	25.3	1.1
Provisions	780	320	750	143.8	4.0
PBT	3,630	3,198	3,610	13.5	0.5
Tax	750	650	750	15.4	-
<i>-effective tax rate</i>	<i>20.7</i>	<i>20.3</i>	<i>20.8</i>	<i>34 bps</i>	<i>-11 bps</i>
PAT	2,880	2,548	2,860	13.0	0.7
EPS (Rs)	3.9	3.4	3.9	13.0	0.6
BV (Rs)	127.8	113.4	123.1	12.6	3.8
Deposits	6,35,260	5,56,566	5,82,713	14.1	9.0
Advances	5,30,664	4,64,815	5,04,093	14.2	5.3

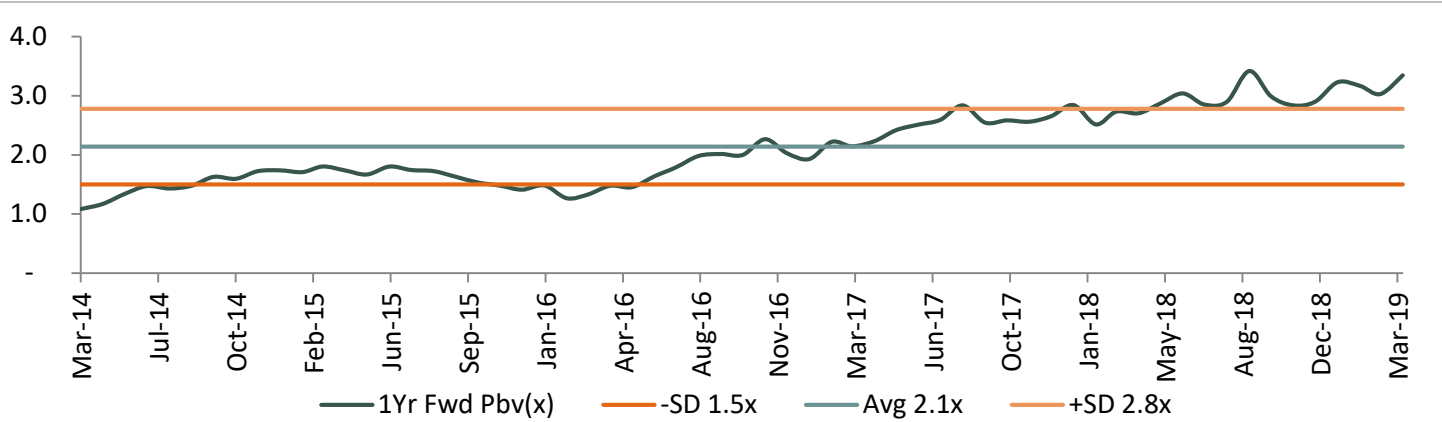
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24	FY25E	FY26E	FY27E
NII	3.4	3.1	3.1	3.2	3.2
Fees	0.1	0.1	0.1	0.1	0.1
Other Income	1.2	0.9	1.1	1.1	1.1
Net Revenue	4.6	4.2	4.3	4.4	4.5
Op.Exp	1.8	2.0	2.1	2.1	2.1
Op.Profit	2.8	2.2	2.3	2.3	2.3
Provisions	1.0	0.4	0.4	0.4	0.4
PBT	1.8	1.8	1.9	1.9	1.9
Tax	0.4	0.3	0.4	0.4	0.4
ROA	1.5	1.5	1.5	1.5	1.5
Leverage (x)	9.1	8.7	8.3	8.2	8.2
ROE	13.4	12.8	12.6	12.5	12.7

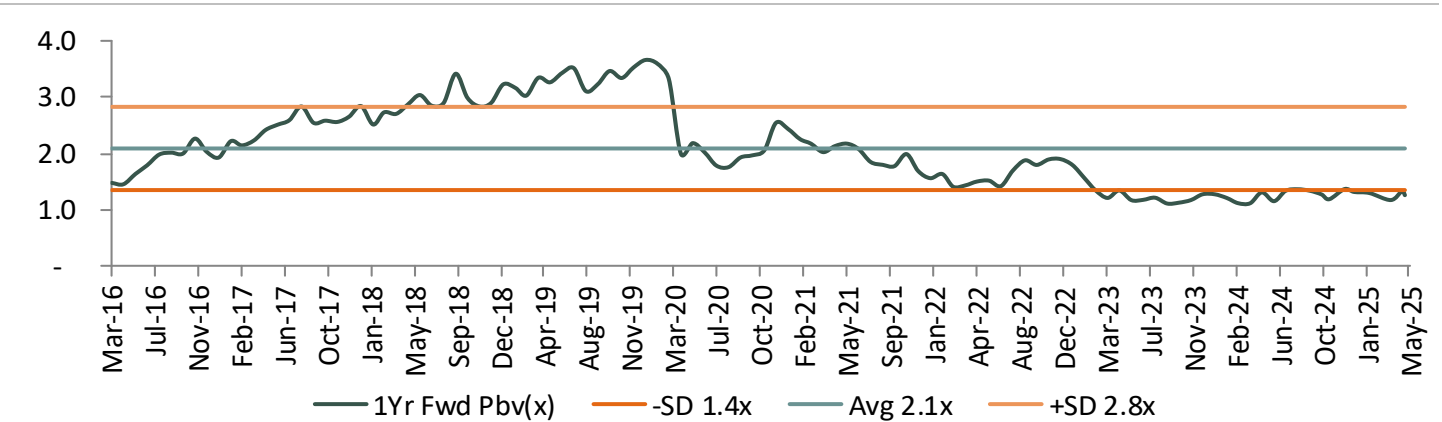
Source: Company; IDBI Capital Research

Exhibit 3: Figure: One-year forward P/ABV (FY14-19)



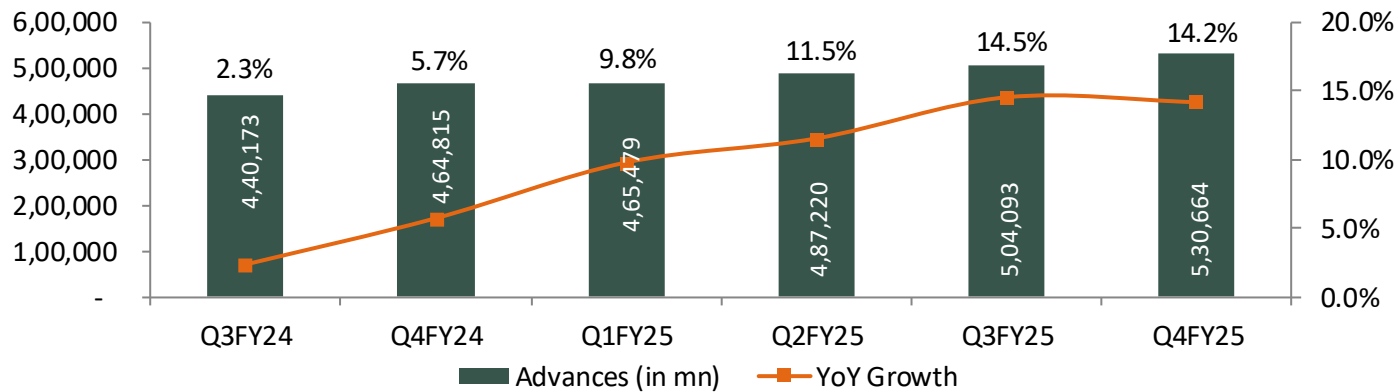
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV



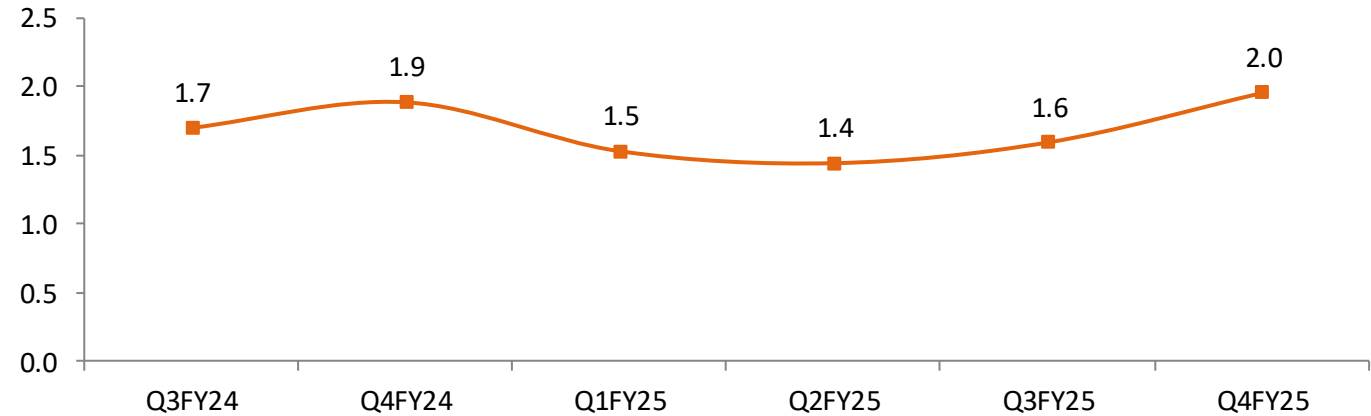
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth remained stable sequentially



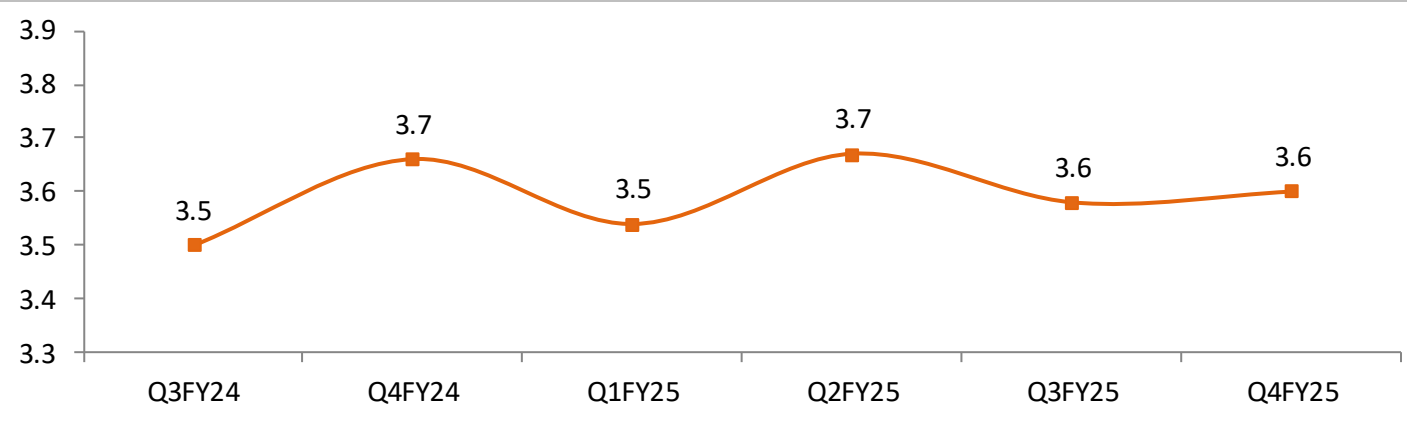
Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio increased during the quarter



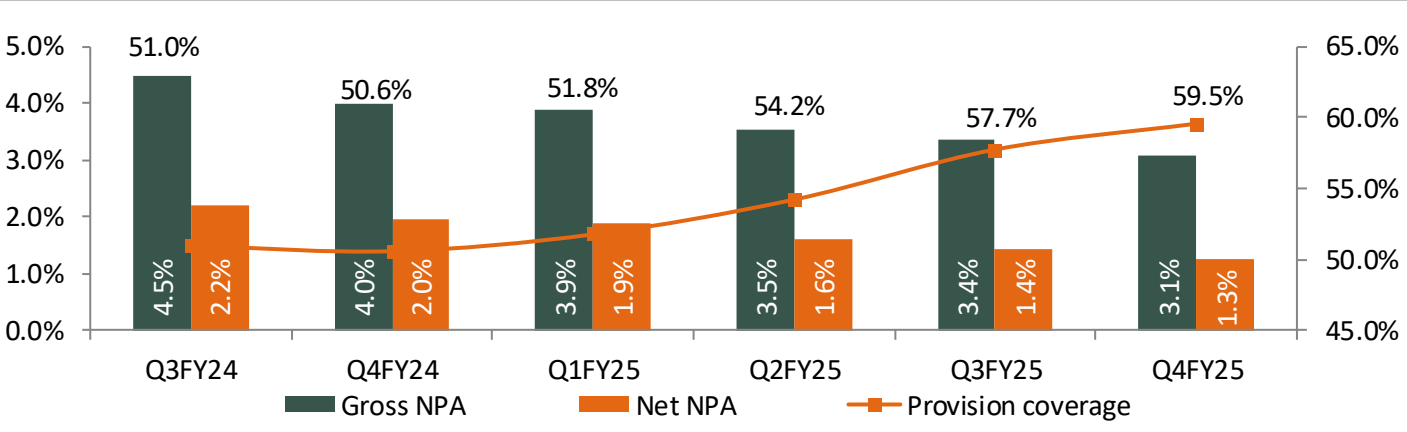
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins remained stable sequentially



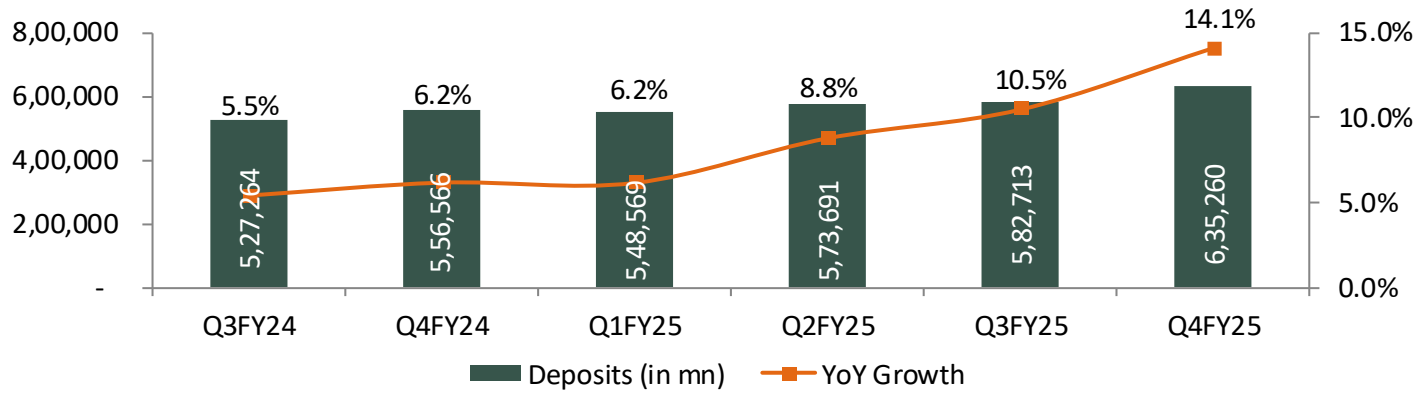
Source: Company; IDBI Capital Research

Exhibit 8: Asset quality improved sequentially



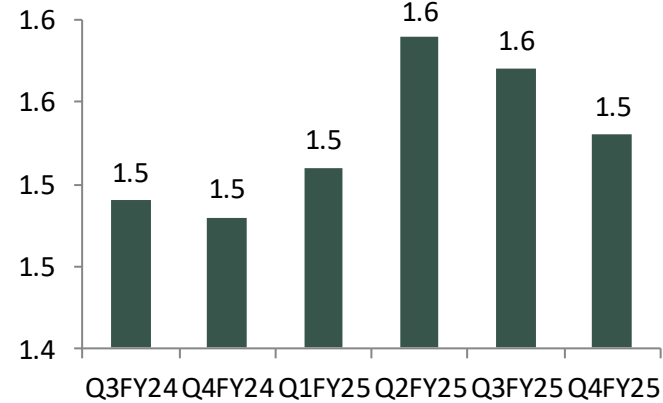
Source: Company; IDBI Capital Research

Exhibit 9: Deposits growth picked up sequentially



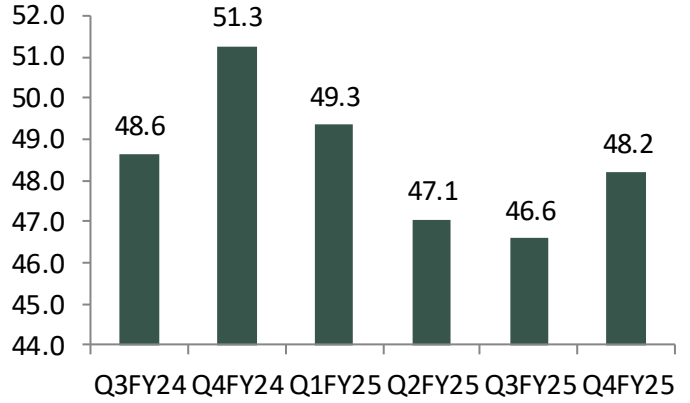
Source: Company; IDBI Capital Research

Exhibit 10: RoA remained stable sequentially



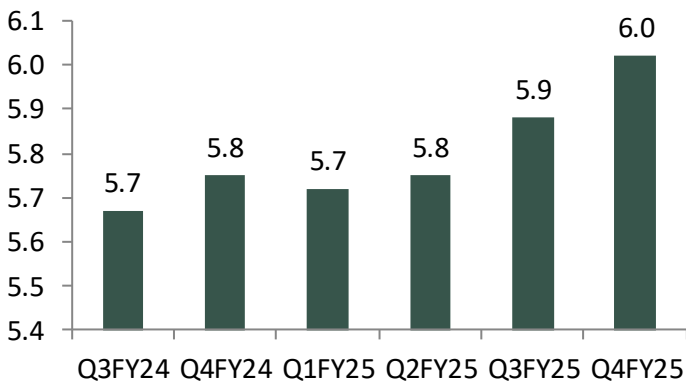
Source: Company; IDBI Capital Research

Exhibit 11: Cost to Income Ratio increased QoQ



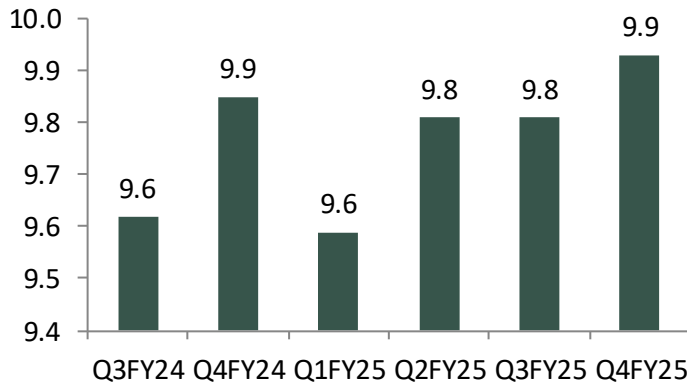
Source: Company; IDBI Capital Research

Exhibit 12: Cost of Deposits increased QoQ



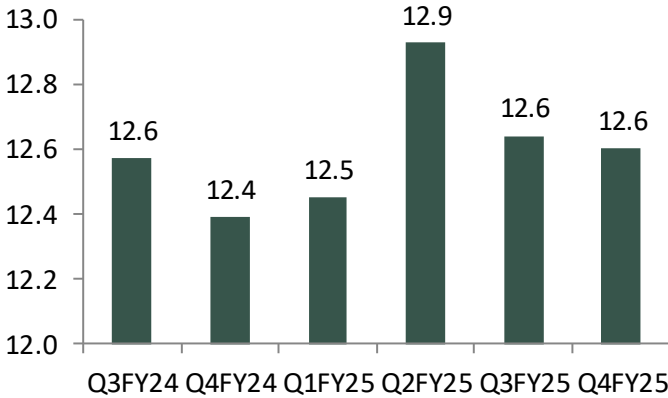
Source: Company; IDBI Capital Research

Exhibit 13: Yield on Advances increased sequentially



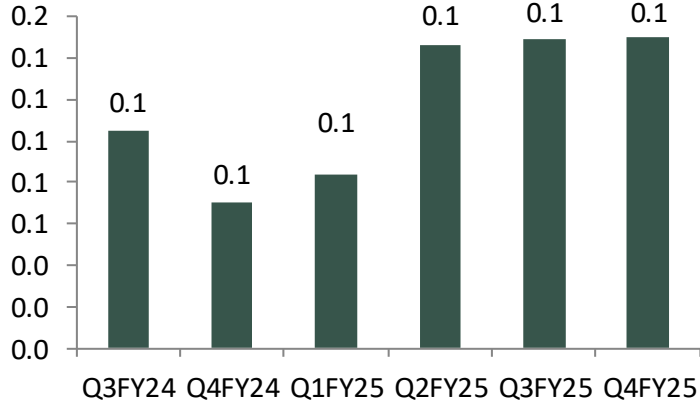
Source: Company; IDBI Capital Research

Exhibit 14: Return on Equity were stable QoQ



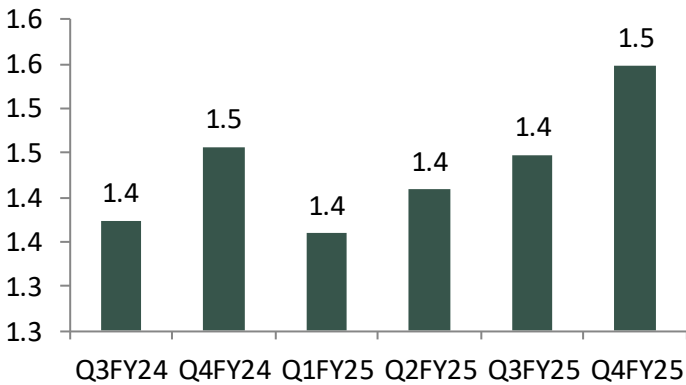
Source: Company; IDBI Capital Research

Exhibit 15: Credit Cost remained stable QoQ



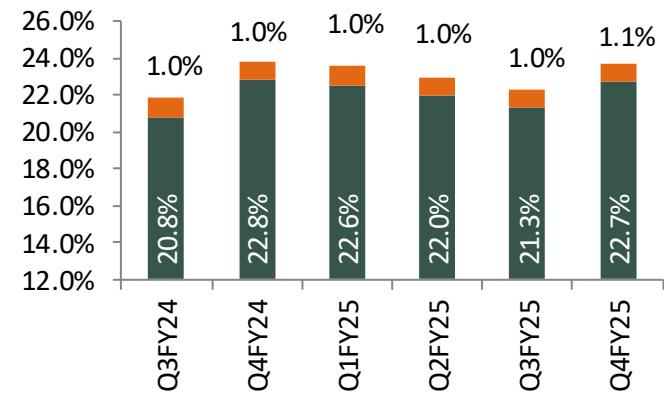
Source: Company; IDBI Capital Research

Exhibit 16: Cost to Assets increased on a sequential basis



Source: Company; IDBI Capital Research

Exhibit 17: CAR remained strong



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net interest income	19,165	21,628	21,235	23,157	26,509	30,065
<i>Change (yoy, %)</i>	5%	13%	-2%	9%	14%	13%
Fees	550	631	948	781	892	1,016
Other Income	7,041	7,472	6,468	8,200	9,158	10,319
Net Revenue	26,756	29,732	28,651	32,138	36,559	41,400
Operating expenses	10,803	11,552	13,484	15,351	17,601	19,848
Employee expenses	5,036	5,304	6,138	7,330	8,442	9,406
Other expenses	5,767	6,248	7,346	8,022	9,159	10,442
Pre-Provision Profit	15,953	18,180	15,167	16,786	18,958	21,552
<i>Change (yoy, %)</i>	9%	14%	-17%	11%	13%	14%
Provision	6,102	6,405	2,860	2,620	3,116	3,552
PBT	9,852	11,775	12,307	14,166	15,842	18,000
Taxes	2,250	2,400	2,150	2,930	3,277	3,723
<i>Effective tax rate (%)</i>	23%	20%	17%	21%	21%	21%
Net profit	7,602	9,375	10,157	11,236	12,565	14,277
<i>Change (yoy, %)</i>	28%	23%	8%	11%	12%	14%
EPS	10.3	12.7	13.7	15.2	17.0	19.3
Return on Equity (%)	12.2	13.4	12.8	12.6	12.5	12.7
Return on Assets (%)	1.3	1.5	1.5	1.5	1.5	1.5

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Capital	740	740	741	741	741	741
Reserves	65,117	73,831	83,273	93,925	1,05,284	1,18,356
Networth	65,857	74,572	84,014	94,666	1,06,025	1,19,097
Deposits	4,76,897	5,23,979	5,56,566	6,35,260	7,15,465	8,06,899
Current deposits	46,193	47,637	54,888	60,738	68,407	77,149
Saving deposits	1,09,101	1,08,932	1,15,613	1,20,451	1,35,659	1,52,995
Term deposit	3,21,603	3,67,410	3,86,065	4,54,071	5,11,400	5,76,755
Borrowings	53,118	46,881	47,242	21,694	28,739	36,423
Other liabilities	19,437	20,514	20,436	24,612	20,252	23,382
Total Liab. & Equity	6,15,309	6,65,946	7,08,259	7,76,232	8,70,480	9,85,800
Cash	66,868	66,493	69,435	52,905	51,721	58,330
Advances	4,03,585	4,30,533	4,55,257	5,20,813	5,93,726	6,76,848
Investments	1,22,212	1,43,326	1,56,641	1,73,361	1,95,201	2,20,091
Fixed Assets	2,147	2,393	2,704	3,223	3,385	3,554
Other Assets	20,496	23,200	24,221	25,929	26,448	26,977
Total assets	6,15,309	6,65,946	7,08,259	7,76,232	8,70,480	9,85,800

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Growth						
Deposits	7.1	9.9	6.2	14.1	12.6	12.8
Advances	11.6	6.7	5.7	14.4	14.0	14.0
NII	4.7	12.9	(1.8)	9.1	14.5	13.4
Pre-Provision Profit	8.7	14.0	(16.6)	10.7	12.9	13.7
Net Profit	28.2	23.3	8.3	10.6	11.8	13.6
Spreads						
Yield on Assets	7.8	8.1	8.5	8.7	8.6	8.5
Cost of Funds	4.4	4.6	5.4	5.6	5.5	5.5
NIM	3.7	3.7	3.4	3.4	3.5	3.5
CASA	32.6	29.9	30.6	28.5	28.5	28.5
Operating Efficiency						
Cost-to-Income	40.4	38.9	47.1	47.8	48.1	47.9
Cost-to-Assets	1.9	1.8	2.0	2.1	2.1	2.1
Asset Quality						
GNPA	4.7	4.4	4.0	3.1	2.7	2.6
NNPA	3.0	2.4	2.0	1.3	1.1	1.0
Provision Coverage	38.4	47.0	51.5	60.1	60.6	60.6
Credit Cost	1.6	1.5	0.6	0.5	0.6	0.6
Capital Adequacy						
CAR	20.9	22.3	23.7	23.8	22.5	22.2
Tier I	19.8	21.3	22.7	22.7	22.0	21.6
Valuation						
EPS	10.3	12.7	13.7	15.2	17.0	19.3
ABV	77.0	90.4	104.3	121.1	136.5	153.6
P/E	16.9	13.7	12.7	11.4	10.2	9.0
P/ABV	2.3	1.9	1.7	1.4	1.3	1.1
ROE	12.2	13.4	12.8	12.6	12.5	12.7
ROA	1.3	1.5	1.5	1.5	1.5	1.5
RoRWA	2.4	2.8	2.8	2.8	2.7	2.7

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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