

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

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#### 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.

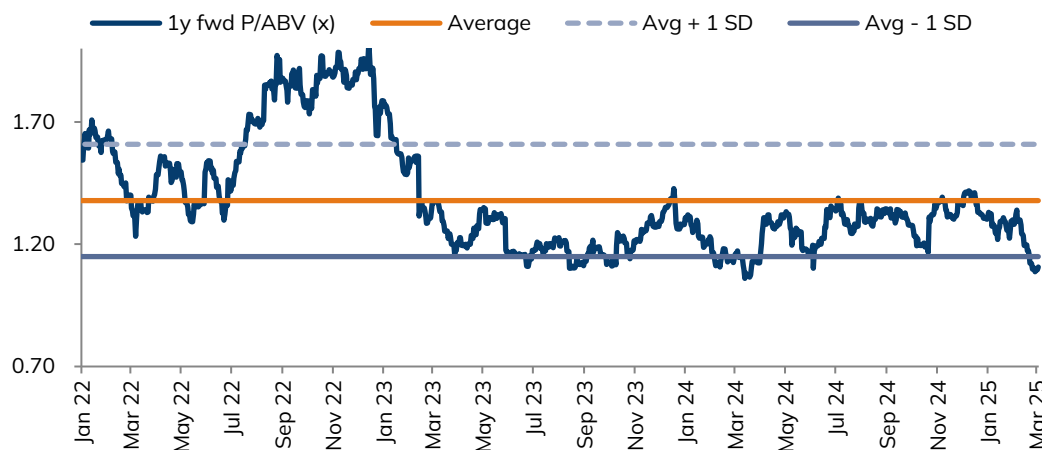
### Upgrade to BUY; INR 200 TP unchanged

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

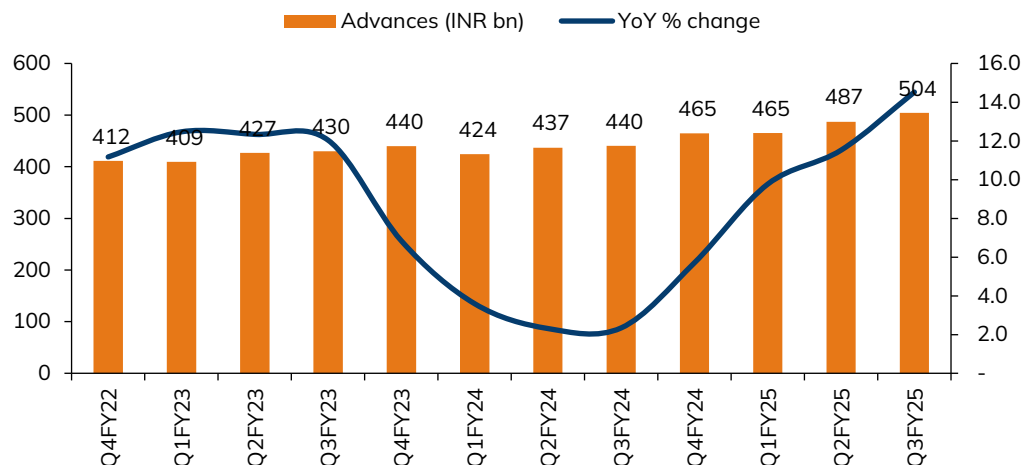


Source: I-Sec research, Bloomberg

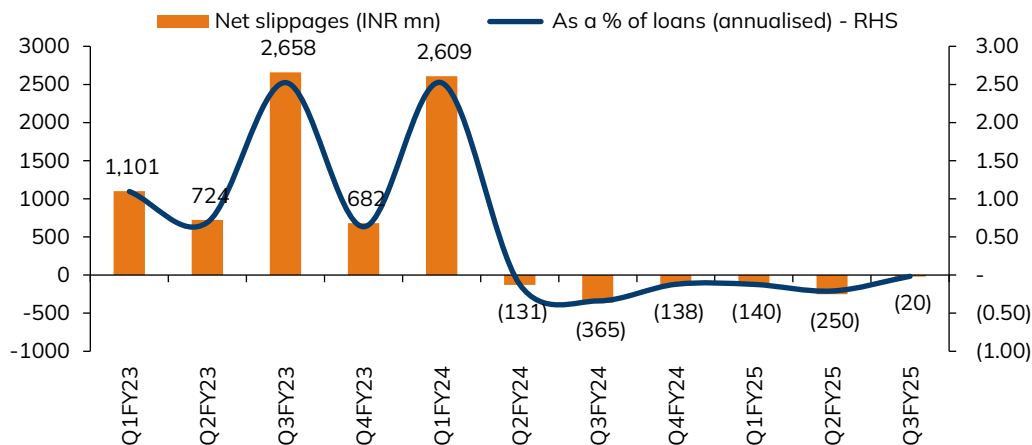
**Exhibit 2: Cut in SA rates by 50–75bps in early buckets should cushion NIM**

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

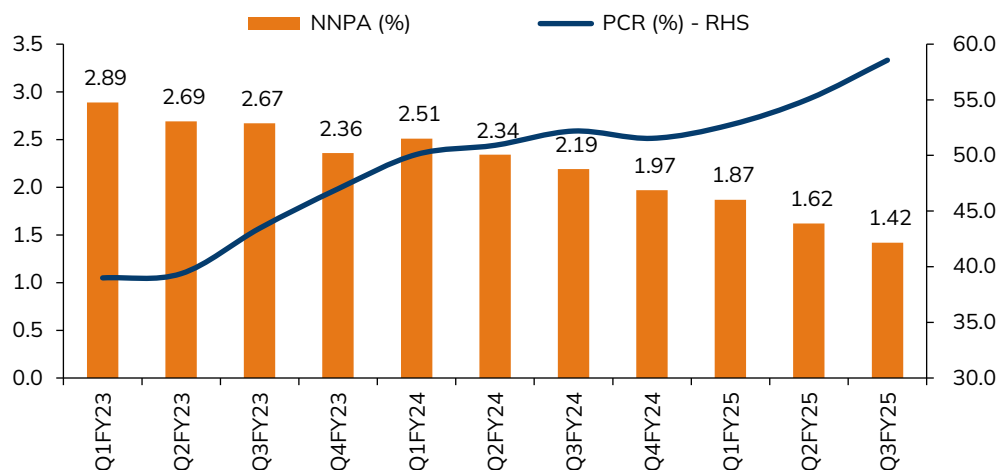
Source: Company data, I-Sec research

**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
<b>Net interest income</b>	<b>21,235</b>	<b>23,112</b>	<b>25,094</b>	<b>29,632</b>
Non-interest income	7,417	8,478	9,891	11,401
<b>Operating income</b>	<b>28,651</b>	<b>31,590</b>	<b>34,985</b>	<b>41,033</b>
Operating expense	13,484	15,395	17,485	19,789
Staff expense	6,138	7,241	8,385	9,540
<b>Operating profit</b>	<b>15,167</b>	<b>16,195</b>	<b>17,500</b>	<b>21,244</b>
<b>Core operating profit</b>	<b>14,651</b>	<b>15,495</b>	<b>16,600</b>	<b>20,344</b>
Provisions & Contingencies	2,860	2,658	3,115	3,945
<b>Pre-tax profit</b>	<b>12,307</b>	<b>13,537</b>	<b>14,384</b>	<b>17,299</b>
Tax (current + deferred)	2,150	2,707	2,877	3,460
<b>Net Profit</b>	<b>10,157</b>	<b>10,830</b>	<b>11,508</b>	<b>13,839</b>
<b>Adjusted net profit</b>	<b>10,157</b>	<b>10,830</b>	<b>11,508</b>	<b>13,839</b>

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
<b>Total assets</b>	<b>7,08,259</b>	<b>7,71,529</b>	<b>8,73,904</b>	<b>9,93,978</b>
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
<b>Total equity &amp; liabilities</b>	<b>7,08,259</b>	<b>7,71,529</b>	<b>8,73,904</b>	<b>9,93,978</b>
% 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
<b>No. of shares and per share data</b>				
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
<b>Valuation ratio</b>				
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
<b>Profitability ratios (%)</b>				
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
<b>Dupont Analysis (as % of Avg Assets)</b>				
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
<b>Return on Assets (%)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.5</b>
Leverage (x)	8.7	8.3	8.3	8.4
<b>Return on Equity (%)</b>	<b>12.8</b>	<b>12.2</b>	<b>11.6</b>	<b>12.5</b>
<b>Asset quality ratios (%)</b>				
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
<b>Capitalisation ratios (%)</b>				
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

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