

City Union Bank (CUBK)

Growth Momentum Continued; Robust Asset Quality

City Union Bank (CUBK) reported Q4FY25 results broadly in line with our estimates, with a beat on the advances/deposits (advances/deposits were 2%/5% higher than our estimates). The MSME/JL non-agri segment mainly led the growth in advances, while the wholesale segment remained muted. The bank maintained caution on the personal lending segment as it reported a decline of 5.3% QoQ/11% YoY. NIMs reported a marginal decline of 6bps YoY to 3.6% (in line with our estimates), mainly due to February repo cut transmission. Asset quality improved during the quarter as GNPA/NNPA reported a decline of 90/72bps YoY, mainly led by the lower slippages and higher recovery.

Advances growth regaining momentum

CUBK's advances grew ~14% on a YoY basis, continuing the path of growth momentum following a slowdown in FY23. Loan growth was majorly driven by the retail segments, such as MSME/JL Non-Agri/ CRE/ Housing portfolio that grew by ~23%/37%/29%/19% respectively on a YoY basis. Major laggards in the lending portfolio were the wholesale trader/ retail trader/ large industries that de-grew by ~20%/8%/39%, respectively, on a YoY basis. The growth momentum remained steady despite a conscious call to exit low-yielding IBPC loans, while the bank's focus remains on the high-yielding retail loans. Going ahead, the bank expects loan growth to remain 2–3% higher than the systemic credit growth in FY26E.

NIM to vary in a ± 10bps range from the current 3.6% level

Yield improved to 9.9% for the quarter due to moving away from low-yielding segments. NIMs remained stable at 3.6% with the bank reaffirming that despite the transmission of a 25bps repo rate cut in February and another repricing planned in May, they expect NIM to improve and remain in the range of 3.5%-3.7% in FY26E.

Deposit repricing

Deposits registered a growth of ~14% on a YoY basis, with CASA deposits registering ~12%/6% growth on a QoQ/YoY basis. CASA deposits improved sequentially, mainly due to traction in the demand deposits, which reported a growth of ~28% QoQ/11% YoY. Owing to improvement in demand deposits, CASA ratio reported an improvement of 84bps QoQ, however, it declined by 211bps YoY. Savings deposits continued to remain a laggard with single-digit growth of 5.8% QoQ/4.2% YoY. The bank has taken a cut of 25bps in their savings and TD deposits, and the impact would start reflecting in the coming quarters.

Valuation

City Union Bank reported healthy growth in advances, mainly led by the MSME and retail segments. The bank aims to grow its high-yield secured segments, which are expected to have a positive impact on the bank's margins. The bank expects to continue to see mid-double-digit growth going forward, which will be led by the retail and MSME segments. Asset quality improvement was marked by lower slippages and higher recoveries.

We expect its advances/deposits to grow at a CAGR of 15% over FY25-27E, while NII/PPOP/PAT shall be expected to grow at 17%/20%/19%.

The bank is currently trading at 1.2x/1.1x of its FY26E/27E Adj. BV. We maintain 'Buy' on City Union Bank with a target of Rs 205. We value the bank at 1.3x of its FY27E Adj. BV.

YE March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Net interest income	21,628	21,235	23,157	26,815	31,588
Pre-provision operating profit	18,180	15,167	16,786	20,590	24,188
Profit after tax	9,375	10,157	11,236	13,491	15,927
EPS (Rs)	12.7	13.7	15.2	18.2	21.5
Adj. BVPS (Rs)	87.0	101.3	118.9	139.9	161.0
Net interest margin (%)	3.9	3.6	3.6	3.6	3.6
P/E (x)	13.7	12.6	11.4	9.5	8.1
P/Adj. BV (x)	2.0	1.7	1.5	1.2	1.1

Source: Company, ACMIIL Research

BUY
Target: Rs 205

Key Data

Bloomberg code:	CUBK:IN
Target price (Rs)	205
CMP (Rs)	173
Upside/ (Downside)	18%
Rating:	Buy
Shares outstanding (mn):	741
Mcap (Rs Bn) :	129
52-week H/L (Rs):	188/130

Price Performance (%)

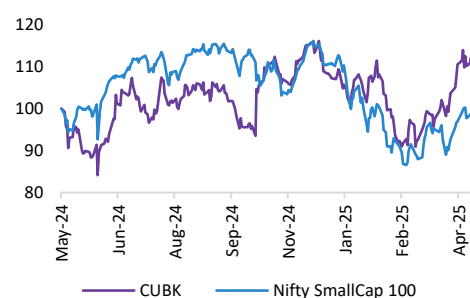
1 month	7.4
3 months	0.1
12 months	7.7

Shareholding Pattern (%)

	Sep'24	Dec'24	Mar'25
Promoter	-	-	-
FIIIs	27.0	27.4	28.0
DIIIs	33.6	33.6	33.1
Public/other	40.4	39.0	30.2
Pledge	-	-	-

Source: BSE

CUBK performance vs. Nifty Small cap 100



Source: NSE

Analyst

Akshay Tiwari

T: +91-22-2858 3738

E: akshay.tiwari@acm.co.in

Shweta Upadhyay

T: +91-22-2858 3743

E: shweta.upadhyay@acm.co.in

City Union Bank (CUBK)

Quarterly Performance

YE March (Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	ACMIIL Est.	Var (%)
Interest Earned	15,327	13,741	11.5	14,787	3.7		
Other Income	2,512	1,752	43.4	2,284	10.0		
Total Income	17,839	15,493	15.1	17,071	4.5		
Interest Expended	9,324	8,275	12.7	8,910	4.6		
Net Interest Income	6,003	5,466	9.8	5,877	2.1	6,081	(1.3)
Employee Costs	1,965	1,678	17.1	1,785	10.1		
Other Operating Expenses	2,140	2,022	5.9	2,016	6.2		
Total Expenses	13,430	11,975	12.1	12,711	5.7		
Operating Profit before Prov.& Cont.	4,410	3,518	25.3	4,360	1.1	4,317	2.1
Provisions and Contingencies	780	320	143.8	750	4.0		
Profit Before Tax	3,630	3,198	13.5	3,610	0.5		
Tax	750	650	15.4	750	-		
Profit After Tax	2,880	2,548	13.0	2,860	0.7	2,835	1.6
EPS (Rs)	3.9	3.4	13.0	3.9	0.7		

Source: Company, ACMIIL Research

NII reported a growth of 9.8% YoY, below our estimates by 1.3%

PAT increased by 0.7% QoQ/13% YoY, ~2% above our estimates

Business Parameters

YE March (Rs mn)	Q4FY25	Q4FY24	YoY (bps)	Q3FY25	QoQ (bps)	ACMIIL Est.	Var (bps)
Advances	5,30,660	4,64,814	14.2%	5,04,093	5.3%	5,20,414	2.0%
Deposits	6,35,260	5,56,566	14.1%	5,82,713	9.0%	6,05,453	4.9%
Credit Deposit Ratio (%)	83.5	83.5	2.0	86.5	(297.4)	86.0	(242.0)
RoA (%)	1.5	1.5	5.0	1.6	(4.0)		
RoE (%)	12.6	12.4	21.0	12.6	(4.0)		
CASA (%)	28.5	30.6	(211.2)	27.7	83.8		
NIM (%)	3.6	3.7	(6.0)	3.6	1.0	3.6	(1.0)
Cost to Income Ratio (%)	48.2	51.3	(305.0)	46.6	163.0		
Cost of Deposit (%)	6.0	5.8	27.0	5.9	14.0		
Yield on advances (%)	9.9	9.9	8.0	9.8	12.0		

Source: Company, ACMIIL Research

Advances growth was ~2% higher than our estimates while deposit growth was ~5% higher than our estimates.

Capital Position

YE March (%)	Q4FY25	Q4FY24	YoY (bps)	Q3FY25	QoQ (bps)
CRAR	23.7	23.8	(14.0)	22.3	144.0
Tier 1	22.7	22.8	(10.0)	21.3	141.0
Tier 2	1.0	1.0	(4.0)	1.0	3.0

Source: Company, ACMIIL Research

City Union Bank (CUBK)

Asset Quality

YE March (Rs mn)	Q4FY25	Q4FY24	YoY (bps)	Q3FY25	QoQ (bps)
Gross NPA	16,382	18,544	-11.7%	16,930	-3.2%
Net NPA	6,531	8,987	-27.3%	7,015	-6.9%
GNPA (%)	3.1	4.0	(90.0)	3.4	(27.0)
NNPA (%)	1.3	2.0	(72.0)	1.4	(17.0)
Provision coverage ratio (%)	78.0	72.0	600.0	77.0	100.0

Asset quality improved during the quarter with GNPA/NNPA at 3.1%/1.3%

Source: Company, ACMIIL Research

Loan Segments

YE March (Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	ACMIIL Est.	Var (%)
MSME	2,16,696	1,76,492	22.8	1,98,113	9.4	2,06,820.6	4.8
Agriculture	87,872	83,515	5.2	90,080	(2.5)	92,012.8	(4.5)
JL Non Agri	66,453	48,579	36.8	58,115	14.3	60,510.1	9.8
Others	39,267	47,887	(18.0)	41,724	(5.9)	45,113.4	(13.0)
Other segments	1,17,005	1,09,342	7.0	1,16,061	0.8	1,15,957	0.9
Total	5,27,293	4,65,815	13.2	5,04,093	4.6	5,20,414	1.3

Source: Company, ACMIIL Research

As a % of Total Advances

YE March (%)	Q4FY25	Q4FY24	YoY (bps)	Q3FY25	QoQ (bps)	ACMIIL Est.	Var (bps)
MSME	41.1	37.9	320.7	39.3	179.5	39.7	135.4
Agriculture	16.7	17.9	(126.4)	17.9	(120.5)	17.7	(101.6)
JL Non Agri	12.6	10.4	217.4	11.5	107.4	11.6	97.5
Others	7.4	10.3	(283.3)	8.3	(83.0)	8.7	(122.2)
Other segments	22.2	23.5	(128.4)	23.0	(83.4)	22.3	(9.2)

Source: Company, ACMIIL Research

The bank has undertaken a rate cut in their savings and term deposits rate of ~25bps. Which would start reflecting over the next few quarters.

Con-Call Key Take Away

- **Advances growth continuing momentum:** CUBK's advances grew ~14% on a YoY basis, continuing the path of growth momentum following a slowdown in 2023. Growth was majorly driven by their MSME/JL Non Agri/ CRE/ Housing portfolio that grew ~23%/37%/29%/19% respectively on a YoY basis. Major laggards in the lending portfolio were the wholesale trader/ retail trader/ large industries that de-grew by ~20%/8%/39%, respectively, on a YoY basis. The growth momentum remained steady despite a conscious call of exiting low-yielding IBPC loans. Going ahead, management guided for 2–3% higher credit growth than systemic growth in FY26, assuming the macro environment remains stable.
- **Rate cut transmission over next few quarters:** Deposit growth registered a growth of ~14% on a YoY basis. Bank's cost of deposit increased marginally to 6.02% in Q4FY25. The bank has undertaken a rate cut in their savings and term deposits rate of ~25bps. The impact of this would start reflecting over the next few quarters.
- **Bank's asset quality improved:** CUBK's asset quality witnessed improvement in the quarter. GNPA reduced to 3.09% while NNPA reduced to 1.25%, both declining 90bps/72bps respectively on a YoY basis. Slippages were curtailed to Rs 8,150 mn against Rs 10,310 mn last year, in line with guided levels. Recoveries of Rs 10,420 mn exceeded slippages for FY25, ensuring net negative slippages. SMA2 book declined to 1.1% further signaling asset quality stabilization. PCR improved to 60% (without technical write-off) and 78% (with technical write-off).
- **NIMs to remain in ±10 bps band in FY26:** Bank's yield improved to 9.93% during the quarter. NIM remained stable at 3.6% with management reaffirming that despite 25bps rates transmitted and another planned in May, they expect NIM to rise and remained in the range of 3.5%-3.7% in FY26. Close to 48% of the bank's total loan book is EBLR linked, while ~31% is fixed. Benefits from lower cost of funds due to deposit repricing and high-yield segments like MSME, gold loans, and secured retail like LAP and home loan are expected to cushion yield pressures in a falling rate cycle.
- **Cost to Income to increase in FY26:** For the quarter, bank's cost to income ratio improved to 47.77%, lower than earlier guided 48%-50%. However, this was due to certain postponed retail-related expenses are expected to reflect in FY26, keeping this ratio around 48–50% next year before trending down as retail initiatives scale up.
- **Growth in Other Income:** Other income grew 21% YoY to Rs 8,980 mn, driven by 79% jump in insurance commissions and 67% rise in loan processing fees, reflecting higher disbursements and improved productivity post-incentive restructuring. Operating profit rose 11% YoY to Rs 16,790 mn, and PAT grew ~11% YoY to Rs 11,236 mn.
- **Guidance:** Credit growth for FY26 will be 2–3% above the industry average. The bank aims to maintain NIMs within the range of 3.5% to 3.7%, with management confident that the benefits from deposit rate reductions, a growing fixed-rate loan portfolio (particularly gold loans), and continued traction in higher-yield MSME and retail secured lending will offset the impact of repo rate cuts transmitted to borrowers. The bank expects to sustain PCR at around 60% (excluding technical write-offs) while maintaining a cost-to-income ratio of 48% to 50%. ROA is guided to be at 1.5% and ROE in the 12–13% range.

Change in Estimates

We raise our estimates upwards to factor in the retail segment growth and deposits growth

YE March, Rs mn	FY26E			FY27E		
	New	Old	Var (%)	New	Old	Var (%)
Advances	6,01,463	5,82,699	3.2	6,93,396	6,65,208	4.2
Deposits	7,28,869	6,86,533	6.2	8,36,748	7,81,366	7.1
NII	26,815	25,005	7.2	31,588	28,092	12.4
PAT	13,491	11,948	12.9	15,927	12,965	22.8
Advances	6,01,463	5,82,699	3.2	6,93,396	6,65,208	4.2

Source: Company, ACMIIL Research

City Union Bank (CUBK)

Valuation and Outlook

We maintain 'Buy' on City Union Bank with a target of Rs 205. We value the bank at 1.3x of its FY27E Adj. BV.

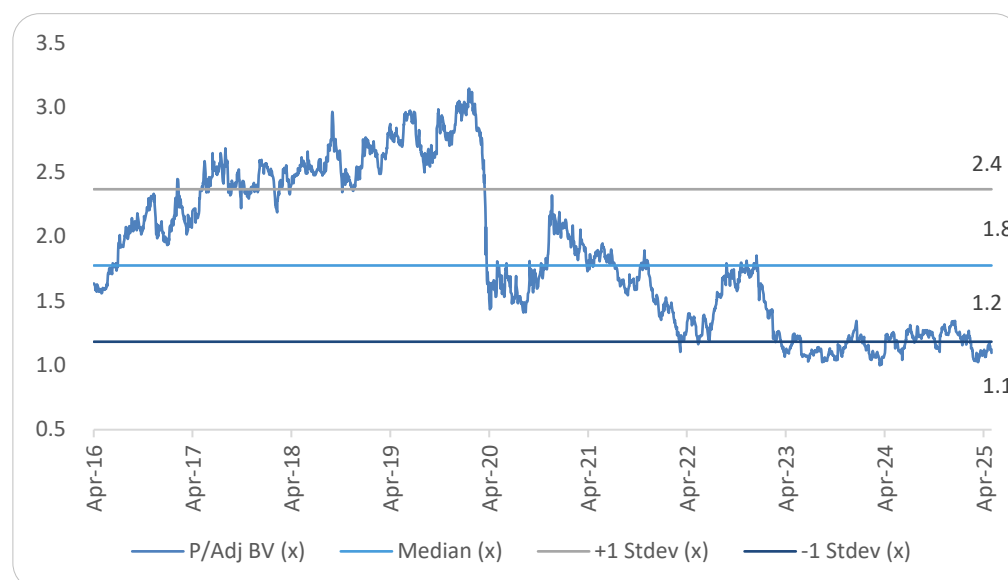
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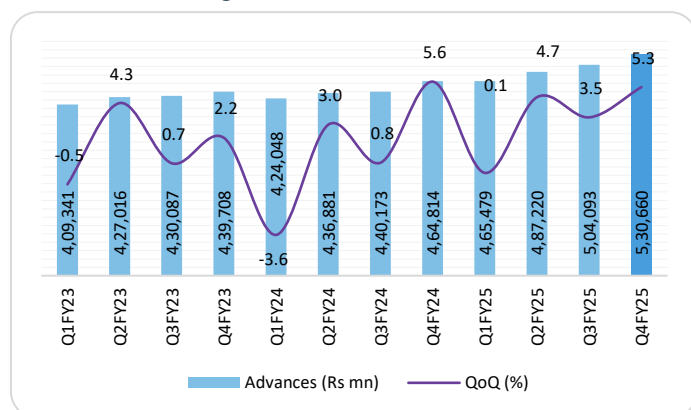
Valuation Chart

Exhibit 1: 1 yr forward P/Adj. BV (x)



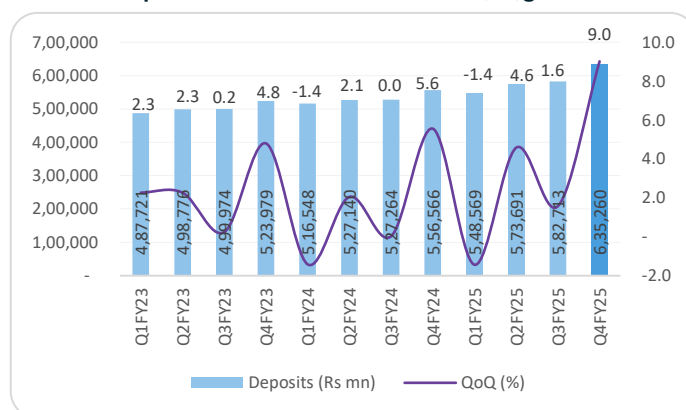
Source: ACMIIL Research

Exhibit 2: Advances growth of ~5% on a QoQ basis



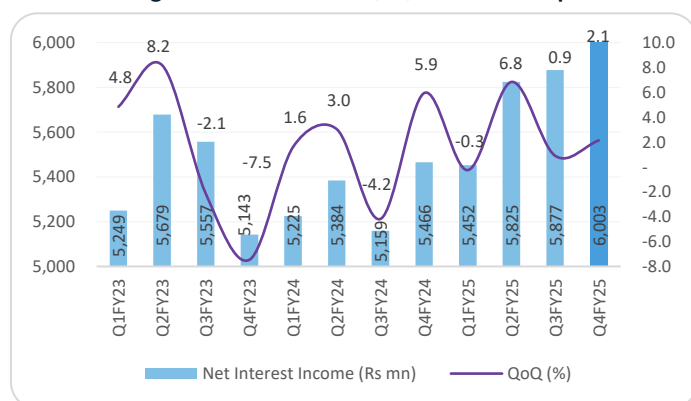
Source: Company, ACMIIL Research

Exhibit 3: Deposit showed traction with 9% QoQ growth



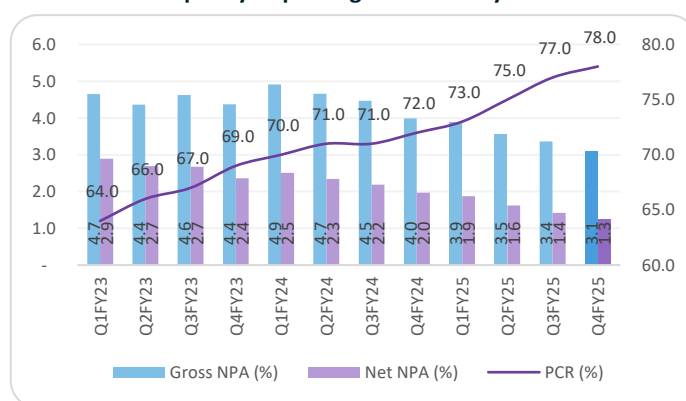
Source: Company, ACMIIL Research

Exhibit 4: NII growth at ~2% on a QoQ basis for the quarter



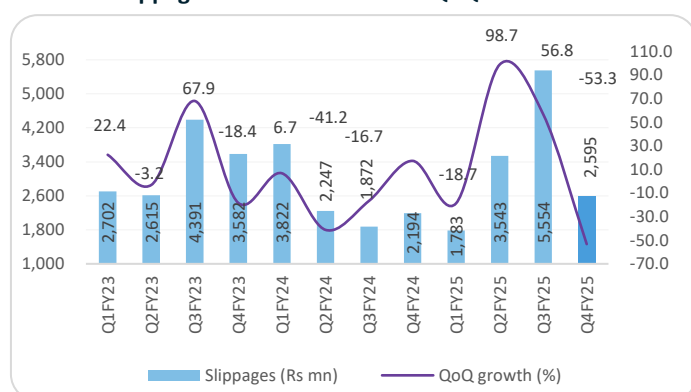
Source: Company, ACMIIL Research

Exhibit 5: Asset quality improving continuously



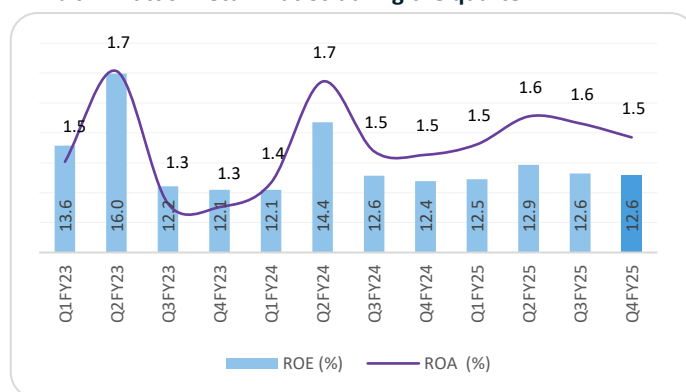
Source: Company, ACMIIL Research

Exhibit 6: Slippages declined ~53% on a QoQ basis



Source: Company, ACMIIL Research

Exhibit 7: Flattish return ratios during the quarter



Source: Company, ACMIIL Research

Financial

Income Statement

YE March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Interest earned	47,143	52,706	58,340	65,638	75,320
Interest expended	25,515	31,471	35,183	38,824	43,732
Net interest income	21,628	21,235	23,157	26,815	31,588
Non interest income	8,104	7,417	8,981	10,974	12,560
Total income	29,732	28,651	32,138	37,789	44,148
Employee cost	5,304	6,138	7,330	8,263	9,581
Other operating expenses	6,248	7,346	8,022	8,935	10,379
Operating expenses	11,552	13,484	15,351	17,198	19,960
Pre-provision operating profit	18,180	15,167	16,786	20,590	24,188
Provisions and contingencies	6,405	2,860	2,620	3,513	4,028
Profit before tax	11,775	12,307	14,166	17,077	20,160
Tax	2,400	2,150	2,930	3,586	4,234
Profit after tax	9,375	10,157	11,236	13,491	15,927
EPS (Rs)	12.7	13.7	15.2	18.2	21.5

Source: Company, ACMIIL Research

Yields and Margin

YE March (%)	FY23	FY24	FY25	FY26E	FY27E
Yield on advances	9.1	9.7	9.8	9.3	9.2
Yield on investments	6.3	6.4	6.5	6.5	6.5
Cost of deposits	4.6	5.6	5.9	5.5	5.4
Net interest margin	3.9	3.6	3.6	3.6	3.6
Loan-deposit ratio	82.2	81.8	82.0	82.5	82.9
CASA ratio	29.9	30.6	28.5	27.4	26.0

Source: Company, ACMIIL Research

Asset Quality

YE March (%)	FY23	FY24	FY25	FY26E	FY27E
Gross NPA (Rs mn)	19,202	18,544	16,382	16,117	18,427
Net NPA (Rs mn)	10,176	8,987	6,531	4,488	4,762
Gross NPA	4.4	4.0	3.1	2.7	2.7
Net NPA	2.4	2.0	1.3	0.7	0.7
Credit cost	1.7	0.7	0.1	0.6	0.6
Provision coverage ratio	69.0	72.0	78.0	76.2	77.2
Slippages	3.0	2.2	1.5	2.8	3.0

Source: Company, ACMIIL Research

Valuation

YE March (x)	FY23	FY24	FY25	FY26E	FY27E
P/E	13.7	12.6	11.4	9.5	8.1
P/BV	1.7	1.5	1.4	1.2	1.0
P/Adj. BV	2.0	1.7	1.5	1.2	1.1

Source: Company, ACMIIL Research

Balance Sheet

YE March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	740	741	741	741	741
Reserves and surplus	73,832	83,274	93,925	1,07,416	1,23,343
Net worth	74,572	84,014	94,666	1,08,157	1,24,084
Deposits	5,23,979	5,56,566	6,35,260	7,28,869	8,36,748
Borrowings	46,881	47,242	21,694	19,406	19,982
Other liabilities and provisions	20,514	20,436	24,612	37,924	58,437
Total equity and liabilities	6,65,946	7,08,259	7,76,232	8,94,356	10,39,251
Cash and balances with RBI	66,493	69,435	52,905	53,106	68,876
Investments	1,43,326	1,56,641	1,73,361	2,07,847	2,41,999
Advances	4,30,533	4,55,257	5,20,813	6,01,463	6,93,396
Fixed assets	2,393	2,704	3,223	3,463	3,703
Other assets	23,200	24,221	25,929	28,477	31,276
Total assets	6,65,946	7,08,259	7,76,232	8,94,356	10,39,251
BVPS (Rs)	100.7	113.4	127.8	146.0	167.5
Adj. BVPS (Rs)	87.0	101.3	118.9	139.9	161.0

Source: Company, ACMIIL Research

Ratios

YE March (%)	FY23	FY24	FY25	FY26E	FY27E
Tier 1	21.3	22.8	22.7	22.8	22.9
CAR	22.3	23.8	23.7	23.8	23.9
ROA	1.5	1.5	1.6	1.6	1.6
ROE	13.4	12.8	12.6	13.3	13.7
Cost-to-income	38.9	47.1	47.8	50.2	49.8

Source: Company, ACMIIL Research

YoY growth

YE March (%)	FY23	FY24	FY25	FY26E	FY27E
Net interest income	12.9	(1.8)	9.1	15.8	17.8
Pre-provision operating profit	14.0	(16.6)	10.7	22.7	17.5
Profit before tax	19.5	4.5	15.1	20.5	18.1
Profit after tax	23.3	8.3	10.6	20.1	18.1
Advances	6.8	5.9	13.2	14.1	15.3
Deposits	9.9	6.2	14.1	14.7	14.8

Source: Company, ACMIIL Research

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
SELL	$< -10\%$
HOLD	$> -10\%$ to 15%

Institutional Research Desk:Email: instresearch@acm.co.in

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