ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

4 November 2025

City Union Bank

Strong show, earnings likely to remain robust; maintaining a Buy

Rating: **BUY**
Target Price (12-mth): Rs.295
Share Price: Rs.236

City Union Bank reported a higher-than-estimated earnings growth in Q2, aided by a healthy 18.7% y/y credit growth and a strong 11.3% y/y growth in core PPoP. Key positives: (1) negative net slippages 70bps of loans, (2) 9bps sequential margin improvement in margin, (3) strong credit growth in core MSME segment, and (4) strong balance sheet. With likely higher credit growth than the system and modest credit cost, its earnings are expected to be healthy. Thus, we retain a BUY rating on the stock with a 12-mth TP of Rs295, valuing it at 1.7x P/BV on its FY28e book.

Continued improvement in asset quality. GNPA/NNPA fell 57bps/30bps q/q on lower slippages and improved recoveries. Slippages stood sequentially lower at Rs1.57bn (~1.2% of loans). Net slippages were negative 70bps, while the standard restructured book was Rs5.9bn (1.1% of loans). With a lower stress build-up vs. peers (which are MSME-focused), and the bank's focus on cash-flow/promoter's strength, we expect asset quality to be range-bound.

Credit growth to be faster than the system. Loan book was Rs566bn (up ~18.7% y/y), driven by strong growth in its core MSME book. With economic activities picking up in TN, we expect credit growth to increase further. Thus, we model ~16% credit growth in the medium-term.

RoA expected sustain at >1.5%. With credit growth is likely to sustain (in mid-teens) and a modest slippage run-rate, medium-term credit cost are expected to be favourable. Decent credit growth, 3.5%+ margin and favourable credit cost would lead to strong profitability in the medium-term. We estimate RoA/RoE at ~1.6%/~13% through FY26-28.

Valuation. Our TP of Rs295 TP, which stems from the two-stage DDM model, implies a ~1.7x P/BV on its FY28e book. **Risks:** Higher slippages and lower-than-expected loan growth.

Key Financials (Y/E Mar)	FY24	FY25	FY26e	FY27e	FY28e
Net interest income (Rs m)	21,235	23,157	27,230	31,939	37,140
Pre-provisioning profit (Rs m)	15,167	16,786	19,395	23,006	26,728
Provisions (Rs m)	2,860	2,620	3,094	4,045	4,920
PAT (Rs m)	10,157	11,236	13,041	14,790	17,011
EPS (Rs)	13.7	15.2	17.6	20.0	23.0
NIM (%)	3.4	3.4	3.6	3.7	3.7
Cost-income (%)	47.1	47.8	48.0	46.7	46.3
RoE (%)	12.8	12.6	13.0	13.1	13.4
RoA (%)	1.5	1.5	1.6	1.6	1.6
Advances growth (%)	5.7	14.4	16.0	16.0	16.0
GNPA (%)	4.0	3.1	1.9	1.8	1.8
CAR (%)	23.7	23.8	24.0	23.5	23.1
P / E (x)	17.2	15.6	13.4	11.8	10.3
P / BV (x)	2.1	1.8	1.6	1.5	1.3
P / ABV (x)	2.2	1.9	1.7	1.5	1.3

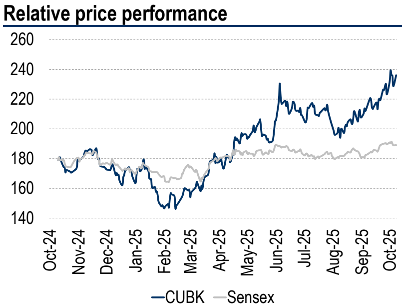
Source: Company, Anand Rathi Research

Key data	CUBK IN / CTBK.BO
52-week high / low	Rs241 / 143
Sensex / Nifty	83978 / 25763
Market cap	Rs169bn
Shares outstanding	741m

Shareholding pattern (%)	Sep'25	June'25	Mar'25
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100.0	100.0	100.0
- Foreign institutions	26.0	27.4	28.0
- Domestic institutions	36.8	35.2	33.1
- Public	37.3	37.4	38.9

Estimates revision (%)	FY27e	FY28e
NII	6.1	7.8
PPoP	5.5	7.4
PAT	6.4	8.7

Relative price performance



Source: Bloomberg

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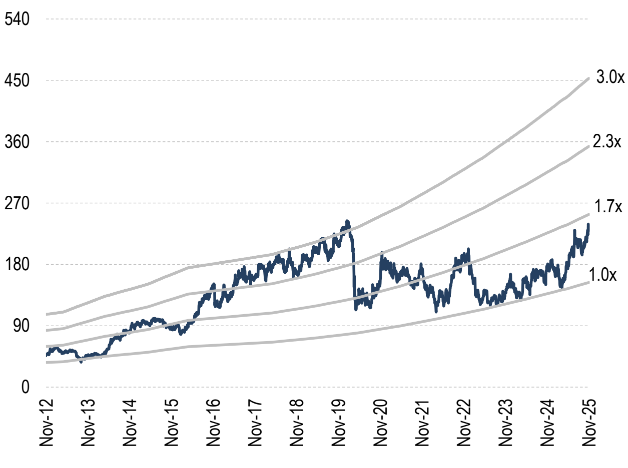
Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Net interest income	21,235	23,157	27,230	31,939	37,140
NII growth (%)	-1.8	9.1	17.6	17.3	16.3
Non-interest income	7,417	8,981	10,058	11,265	12,617
Income	28,651	32,138	37,288	43,204	49,757
Income growth (%)	-3.6	12.2	16.0	15.9	15.2
Operating expenses	13,484	15,351	17,893	20,198	23,029
PPoP	15,167	16,786	19,395	23,006	26,728
PPoP growth (%)	-16.6	10.7	15.5	18.6	16.2
Provisions	2,860	2,620	3,094	4,045	4,920
PBT	12,307	14,166	16,302	18,961	21,809
Tax	2,150	2,930	3,260	4,171	4,798
PAT	10,157	11,236	13,041	14,790	17,011
PAT growth (%)	8.3	10.6	16.1	13.4	15.0
FDEPS (Rs)	13.7	15.2	17.6	20.0	23.0
DPS (Rs)	1.5	2.0	2.1	2.4	2.8

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



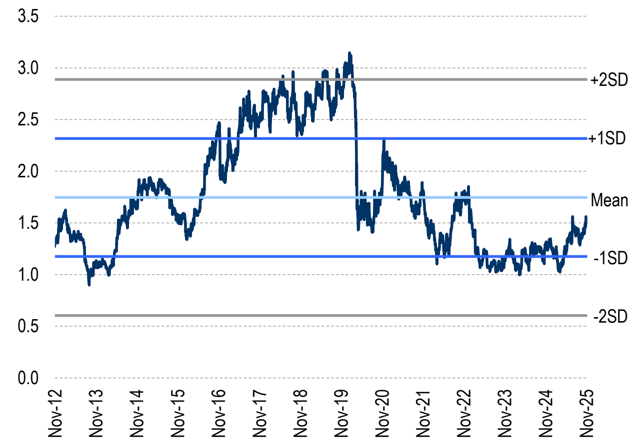
Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	741	741	741	741	741
Reserves & surplus	83,274	93,925	1,05,401	1,18,416	1,33,386
Deposits	5,56,566	6,35,260	7,34,995	8,48,920	9,80,502
Borrowings	47,242	21,694	22,562	23,464	24,403
Other liabilities	20,436	24,612	24,535	25,671	26,562
Total liabilities	**7,08,259**	**7,76,232**	**8,88,234**	**10,17,213**	**11,65,593**
Advances	4,55,257	5,20,813	6,04,143	7,00,805	8,12,934
Investments	1,56,641	1,73,361	1,82,030	2,03,873	2,28,338
Cash & bank balance	69,435	52,905	69,672	77,553	86,541
Fixed & other assets	26,925	29,153	32,390	34,982	37,780
Total assets	**7,08,259**	**7,76,232**	**8,88,234**	**10,17,213**	**11,65,593**
No. of shares (m)	741	741	741	741	741
Deposits growth (%)	6.2	14.1	15.7	15.5	15.5
Advances growth (%)	5.7	14.4	16.0	16.0	16.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book-value



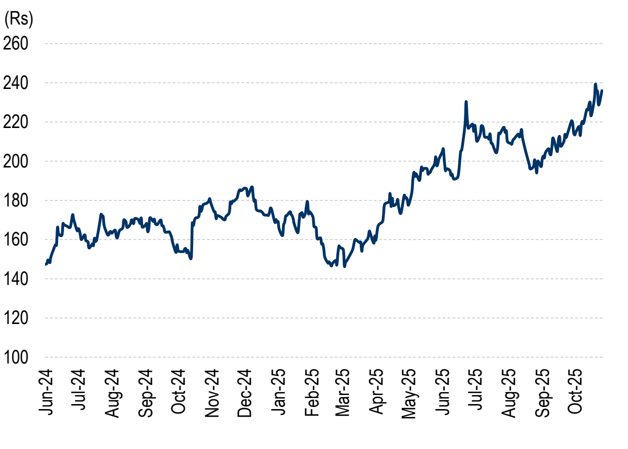
Source: Bloomberg

Fig 3 – Ratio analysis (%)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
NIM	3.4	3.4	3.6	3.7	3.7
Other inc. / total inc.	25.9	27.9	27.0	26.1	25.4
Cost-income	47.1	47.8	48.0	46.7	46.3
Provision coverage	51.5	60.1	60.0	60.0	60.0
Dividend payout	10.9	13.2	12.0	12.0	12.0
Credit-deposit	81.8	82.0	82.2	82.6	82.9
Investment-deposit	28.1	27.3	24.8	24.0	23.3
Gross NPA	4.0	3.1	1.9	1.8	1.8
Net NPA	2.0	1.3	0.8	0.7	0.7
BV (Rs)	113.4	127.8	143.2	160.8	181.0
Adj. BV (Rs)	104.9	121.6	138.9	155.9	175.5
CAR	23.7	23.8	24.0	23.5	23.1
- Tier 1	22.7	22.7	23.0	22.7	22.3
RoE	12.8	12.6	13.0	13.1	13.4
RoA	1.5	1.5	1.6	1.6	1.6

Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Fig 7 – Movement of GNPA

GNPA (Rs m)	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Opening balance	**18,544**	**18,064**	**17,255**	**16,930**	**16,382**	**16,170**
Slippages	1,783	1,760	2,011	2,595	1,963	1,565
Recovery	1,922	2,011	2,031	2,380	1,431	2,506
Write-offs	340	559	305	763	744	1,297
Closing balance	**18,064**	**17,255**	**16,930**	**16,382**	**16,170**	**13,932**
GNPA (%)	3.9	3.5	3.4	3.1	3.0	2.4
Gross slippage (%)	1.6	1.5	1.7	2.1	1.5	1.2

Source: Company, Anand Rathi Research

Fig 8 – Break-up of advances (%)

Y/E Mar	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Agriculture	18.4	18.7	17.9	16.6	16.0	15.7
MSME	37.5	37.7	39.3	40.8	40.1	40.1
Large industries	1.3	1.3	1.2	0.9	1.0	1.1
Retail traders	1.5	1.3	1.2	1.2	1.1	0.7
Wholesale traders	2.4	2.2	1.9	1.7	1.5	1.0
Commercial real estate	5.8	6.0	6.3	6.9	6.6	5.3
JL non-agriculture	10.8	11.0	11.5	12.5	13.6	14.2
Housing loans	4.6	4.7	4.8	4.7	4.7	4.6
Other Personal loans	2.8	2.7	2.5	2.3	2.5	4.5
Loans collateralized by Deposits	1.6	1.6	1.5	1.7	1.6	1.5
Infrastructure	0.7	0.6	0.6	0.6	0.6	0.5
NBFC	3.0	3.5	3.1	2.7	2.5	2.5
Others (educational loans, staff loans)	9.6	8.6	8.3	7.4	8.1	8.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Anand Rathi Research

Quarterly Snapshot

Fig 9 – Income statement

Y/E Mar (Rs m)	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Interest income	13,886	14,339	14,787	15,327	16,053	16,531
Interest expense	8,435	8,515	8,910	9,324	9,800	9,866
NII	**5,452**	**5,825**	**5,877**	**6,003**	**6,253**	**6,665**
Y/Y growth (%)	*4.3*	*8.2*	*13.9*	*9.8*	*14.7*	*14.4*
Non-interest income	1,921	2,263	2,284	2,512	2,439	2,591
Total income	**7,373**	**8,088**	**8,161**	**8,515**	**8,692**	**9,257**
Y/Y growth (%)	*3.3*	*12.3*	*15.1*	*18.0*	*17.9*	*14.4*
Operating expenses	1,744	1,835	1,785	1,965	2,006	2,244
of which, staff cost	1,894	1,971	2,016	2,140	2,176	2,307
PPoP	**3,735**	**4,282**	**4,360**	**4,410**	**4,509**	**4,706**
Y/Y growth (%)	*-9.8*	*10.8*	*19.8*	*25.4*	*20.7*	*9.9*
Total provisions	390	700	750	780	700	570
PBT	**3,345**	**3,582**	**3,610**	**3,630**	**3,809**	**4,136**
Tax	700	730	750	750	750	850
PAT	**2,645**	**2,852**	**2,860**	**2,880**	**3,059**	**3,286**
Y/Y growth (%)	*16.4*	*1.6*	*13.0*	*13.0*	*15.7*	*15.2*

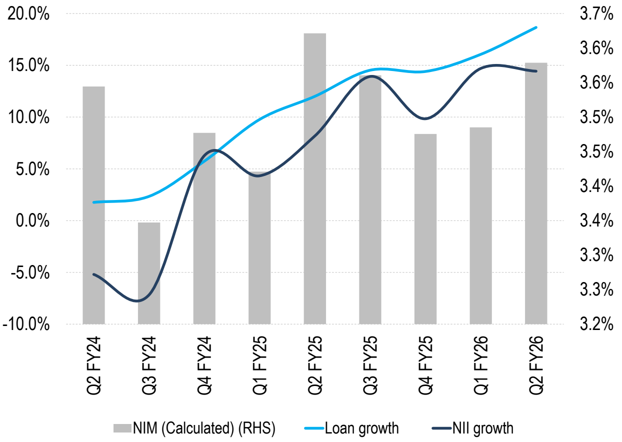
Source: Company, Anand Rathi Research

Fig 10 – Balance sheet

Y/E Mar (Rs m)	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Equity capital	740	741	741	741	741	741
Reserves & Surplus	85,919	88,058	90,918	93,925	96,984	98,519
Deposits	5,48,569	5,73,691	5,82,713	6,35,260	6,57,340	6,94,860
Borrowings	-	25,466	-	21,694	-	21,827
Other Liabilities	-	25,704	-	24,612	-	28,076
Total Liabilities	**-**	**7,13,660**	**-**	**7,76,232**	**-**	**8,44,024**
y/y deposits growth (%)	6.2	8.8	10.5	14.1	19.8	21.1
q/q deposits growth (%)	-1.4	-1.5	1.6	9.0	3.5	5.7
Cash and cash balances	-	38,719	-	52,905	-	69,529
Advances	4,65,479	4,77,715	5,04,093	5,20,813	5,40,200	5,66,809
Investments	1,60,152	1,64,532	1,59,855	1,73,361	1,74,958	1,75,187
Other Assets	-	32,695	-	29,153	-	32,499
Total Assets	**-**	**7,13,660**	**-**	**7,76,232**	**-**	**8,44,024**
y/y advances growth (%)	9.8	12.0	14.5	14.4	16.1	18.7
q/q advances growth (%)	2.2	-5.2	5.5	3.3	3.7	4.9

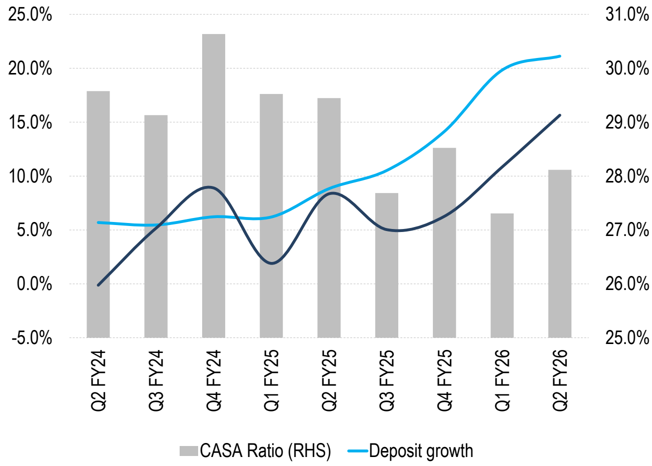
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM (%)



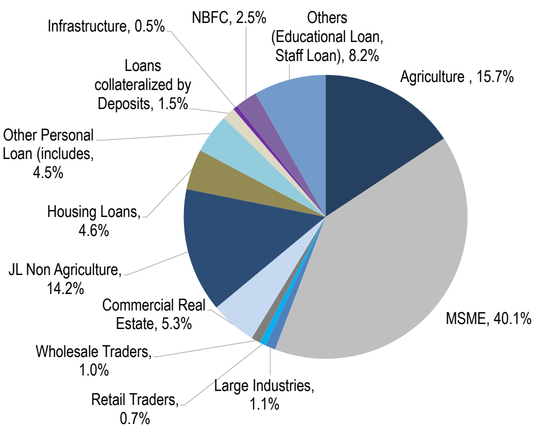
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. deposit growth (%)



Source: Company, Anand Rathi Research

Fig 13 – Loan break-up

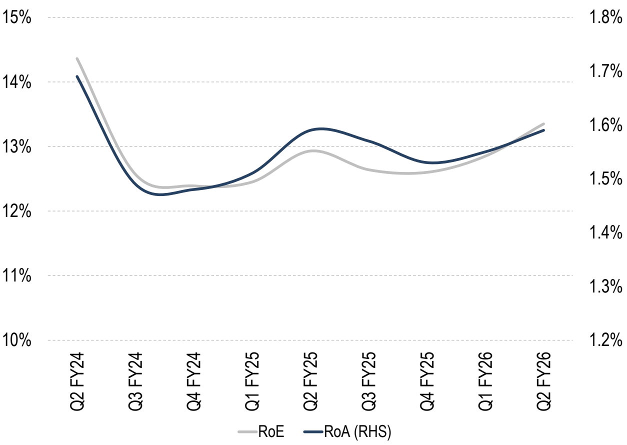


Source: Company, Anand Rathi Research

Fig 14 – Income vs. opex growth (%)

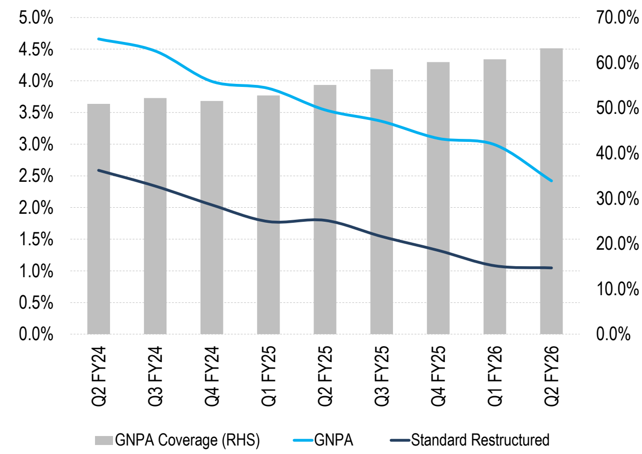
Source: Company, Anand Rathi Research

Fig 15 – RoE vs. RoA (%)



Source: Company, Anand Rathi Research

Fig 16 – Restructured assets vs. GNPA (%)



Source: Company, Anand Rathi Research

Conference Call Takeaways

Guidance and outlook

- **Loan growth:** 2-3% above industry average (industry of ~12%, implies ~14-15% for the bank).
- **RoA and RoE:** RoE is likely to remain >1.5%, while RoE is expected to improve in-line with profitability.
- **NIM:** NIM is likley to remain >3.5%, aided by deposit re-pricing and fixed-rate gold loans.
- **C/I ratio:** C/I ratio is guided at 48-50% for FY26.
- Management confident of sustaining double-digit growth, strong recoveries, and stable margin, while pursuing sustainable and diversified growth avenues i.e., renewable finance.

Business and strategic updates

- The bank entered into a strategic partnership with IFC for a three-year term loan with a bullet repayment option, aimed at financing MSMEs transitioning to renewable and energy-efficient solutions like solar and wind.
- So far, the bank has financed Rs5bn in RE loans and plans to expand this book to Rs25bn over the next 24-30 months, primarily catering to existing MSME customers.

Loan growth and portfolio-mix

- Loan portfolio remains dominated by MSME and retail segments, which together contribute ~75-80% to incremental disbursement.
- Credit growth remains strong and branch-driven, with 90% of sourcing in retail and MSME done internally, while only 10% via third-party channels.
- Growth in MSME segment is a mix of takeovers and organic demand from the existing customers. Management expects credit growth to remain 2-3% higher than the industry levels without compromising on risk front.
- Retail secured loan verticals and sales teams created under BCG transformation project have expanded sourcing and processing capacity, enabling faster growth.
- Management stated that the bank's credit growth trajectory is sustainable, aided by a strong pipeline, robust branch activity, and adequate funding visibility.
- Retail asset growth is being driven by secured segments (home loans, gold loans and LAP), where the yields remain attractive and delinquencies are lower.
- Newly established Retail Secured Loan vertical and dedicated regional sales teams have expanded origination capacity and improved turnaround time of loan processing.

Asset Quality

- The bank continues to maintain negative net slippages for several quarters and expects this trend to extend in H2 FY26.
- The bank is in the process of preparing for ECL implementation.

- Based on back-of-the-envelope estimates:
  - **Stage 3 (NPAs):** No material rise is likely over existing IRAC provisions.
  - **Stage 2 (SMA/restructured):** Some incremental provisioning may be required, which is expected to be limited.
  - **Stage 1 (standard assets):** Additional provisioning of 10-20bps may arise due to ECL floor requirement.
- Management stated that ECL transition will not be alarming; adequate buffers, recoveries and reversals from restructured assets are likely offset the incremental impact.
- Final provisioning impact to be reassessed after the RBI issues final guidelines.

Margins, cost and profitability

- NIM growth is attributable to decline in cost of deposits (from 5.95% to 5.71%) and re-pricing of maturing TDs at lower rates (8.1% to 6.75-7%).
- About Rs180bn of TDs matured in H1 FY26, which were replaced at lower rates (from 8.1% to 6.75-7%), which aided margin improvement.
- Notably, margin improvement was not driven by one-off items. Management expects NIM to sustain above 3.5%.
- About Rs180bn of deposits matured in H1, with another Rs170-180bn likely to be re-priced in H2, supporting further cost reduction.
- Management reaffirmed stable credit cost outlook and continued improvement in profitability.

Valuation

- Our TP of Rs295 is based on the two-stage DDM model. This implies a ~1.7x P/BV on its FY28e book.

Fig 17 – Change in estimates

	FY27e			FY28e		
(Rs m)	New	Old	Chg %	New	Old	Chg %
Net interest income	31,939	30,105	6.1	37,140	34,446	7.8
Pre-provisioning profit)	23,006	21,806	5.5	26,728	24,885	7.4
PAT	14,790	13,895	6.4	17,011	15,656	8.7

Source: Anand Rathi Research

Risks

- Higher-than-expected slippages could put our estimates at risk.
- Less-than-anticipated loan growth could upset our estimates.

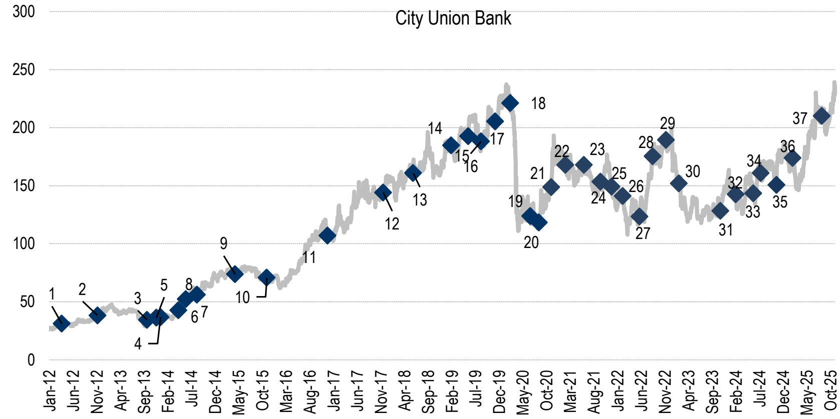
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 3 November 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
22	04-Feb-21	**Hold**	190	182
23	31-May-21	**Hold**	190	173
24	09-Aug-21	**Hold**	170	155
25	14-Nov-21	**Buy**	190	164
26	06-Feb-22	**Buy**	170	145
27	30-May-22	**Buy**	180	138
28	09-Aug-22	**Buy**	190	138
29	04-Nov-22	**Buy**	220	190
30	11-Feb-23	**Buy**	184	160
31	27-Oct-23	**Buy**	167	134
32	01-Feb-24	**Buy**	179	144
33	20-May-24	**Buy**	191	152
34	28-Jul-24	**Buy**	192	160
35	21-Oct-24	**Buy**	200	151
36	31-Jan-25	**Buy**	218	174
37	31-Jul-25	**Buy**	268	214

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	**Hold**	**Sell**
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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