

BUY

TP: Rs 330 | ▲ 16%

CITY UNION BANK

| Banking

| 03 February 2026

Return ratios steady with consistent AQ improvement

- PPOP in line with estimates. Sustainable return metrics with consistent ROA delivery of ~1.5%; likely to remain relatively better vs peers
- Advances growth to stay above system levels; AQ improving with NNPA ratio at multi-quarter low; Leadership transition underway
- Maintain BUY with a TP of Rs 330 (1.9x Dec'27E ABV) from Rs 313 (1.8x earlier), on the back of steady return profile

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PPoP in line with estimates; return ratios remain steady: CUBK reported PPOP of Rs 5.1bn (+18% YoY; +9% QoQ) and was largely in line with our estimates (-0.7%). The healthy growth in PPOP was supported by NII growing to Rs 7.5bn (+28% YoY; +13% QoQ). NII growth came mainly on the back of superior growth in net advances (+21.5% YoY) — above system levels — and NIMs rising to 3.89% (+26bps QoQ). Management expects loan growth to be in mid-to-high teens or 2-3% above system growth with a focus on MSME, gold and secured retail segments. Further, the rise in NIMs was driven by a higher yield on advances to 9.73% (+7bps QoQ) and lower CoD to 5.57% (-14bps QoQ), backed by repricing of deposits. C/I ratio improved to 48.6% from 49.2% in Q2FY26. Despite a rise in provisions to Rs 960mn (+28% YoY), PAT increased to Rs 3.3bn (+16% YoY). As a result, return ratios remain steady with RoA/RoE of 1.5%/13.2% in Q3FY26.

AQ improving with NNPA ratio at a multi-quarter low: Asset quality (AQ) continued to improve with absolute GNPA levels down to Rs 13.2bn (-5% QoQ). Hence, GNPA ratio improved to 2.17% (-25bps QoQ). The improvement in GNPA was also supported by higher w/offs of Rs 3.1bn (9MFY26) vs Rs 2bn (FY25). With a consistent rise in PCR (including technical write-offs) to 83% in Q3FY26 vs 77% in Q3FY25, the NNPA ratio improved to a multi-quarter low of 0.78% (-12bps QoQ). Further, the SMA 2 book also declined to 0.95% of the total loans in Q3FY26 vs 1.34% in Q2FY26, indicating an improvement in the early delinquency buckets.

Leadership transition: Dr N. Kamakodi's (MD & CEO) term will conclude on April 30, 2026. Management has submitted the list of candidates to RBI for this position and is awaiting approval for the same. We note that the transition introduces an element of management risk, given the importance of leadership continuity for the bank's strategic direction and operations.

Maintain BUY: CUBK's strong capital position (Tier I of 19.2%), above-system credit growth, and improving AQ metrics — resulted in a steady return profile. We expect the bank to report RoA/RoE of 1.5%/13.7% by FY28E. We maintain BUY rating & TP of Rs 330 (1.9x Dec'27E ABV) from Rs 313 (1.8x earlier).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CUBK IN/Rs 285
Market cap	US\$ 2.3bn
Free float	100%
3M ADV	US\$ 10.3mn
52wk high/low	Rs 305/Rs 143
Promoter/FPI/DII	0%/23%/40%

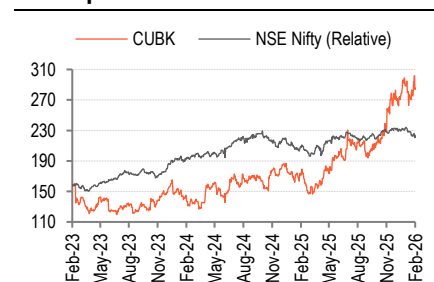
Source: NSE | Price as of 2 Feb 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	23,157	28,149	32,686
NII growth (%)	9.1	21.6	16.1
Adj. net profit (Rs mn)	11,236	13,093	15,102
EPS (Rs)	15.2	17.7	20.4
Consensus EPS (Rs)	15.2	17.6	20.1
P/E (x)	18.8	16.2	14.0
P/BV (x)	2.2	2.0	1.8
ROA (%)	1.5	1.6	1.5
ROE (%)	12.6	13.0	13.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

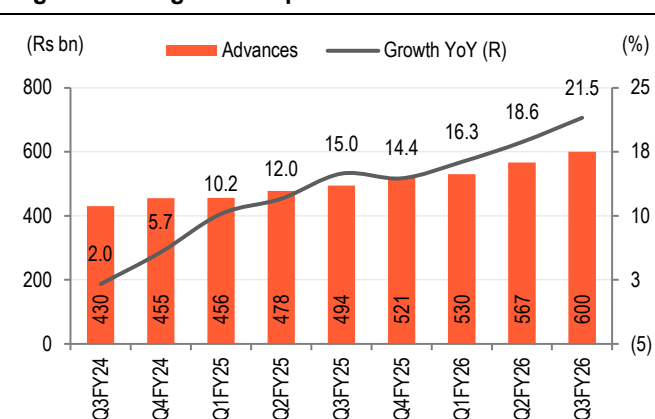
(Rs mn)	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	11,990	12,432	12,902	13,318	14,346	19.7	7.7
Income on investments	2,689	2,714	2,864	2,876	2,937	9.2	2.1
Int. on bal. with RBI & inter-bank funds & Others	109	181	287	338	273	151.5	(19.2)
Interest income	14,787	15,327	16,053	16,531	17,557	18.7	6.2
Interest expense	8,910	9,324	9,800	9,866	10,035	12.6	1.7
Net interest income	5,877	6,003	6,253	6,665	7,522	28.0	12.8
Growth YoY (%)	14.3	14.9	16.1	29.2	28.0		
Fee Income	1,114	1,491	1,226	1,346	1,538	38.1	14.3
Trading gains/(losses)	178	262	644	216	212	19.1	(1.9)
Non-interest income	2,284	2,512	2,439	2,591	2,453	7.4	(5.3)
Growth YoY (%)	17.1	31.2	33.9	34.4	7.4		
Total income	8,161	8,515	8,692	9,257	9,975	22.2	7.8
Growth YoY (%)	15.1	19.3	20.6	30.6	22.2		
Staff expenses	1,785	1,965	2,006	2,244	2,302	29.0	2.6
Other operating expenses	2,016	2,140	2,176	2,307	2,541	26.1	10.1
Operating expenses	3,801	4,106	4,182	4,551	4,844	27.4	6.4
Pre-Provisioning Profit (PPoP)	4,360	4,410	4,509	4,706	5,132	17.7	9.0
Growth YoY (%)	4.5	6.4	16.6	29.3	17.7		
Provisions	750	780	700	570	960	28.0	68.4
Growth YoY (%)	(52.8)	(48.7)	25.0	23.9	28.0		
Exceptional Item	-	-	-	-	-	-	-
PBT	3,610	3,630	3,809	4,136	4,172	15.6	0.9
Tax	750	750	750	850	850	13.3	0.0
PAT	2,860	2,880	3,059	3,286	3,322	16.1	1.1
Growth YoY (%)	31.2	26.7	9.0	29.9	16.1		
Per Share							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	3.9	3.9	4.1	4.4	4.5	16.1	1.1
Book Value (Rs)	123.0	127.8	130.7	133.9	137.1	11.4	2.3

Source: Company, BOBCAPS Research

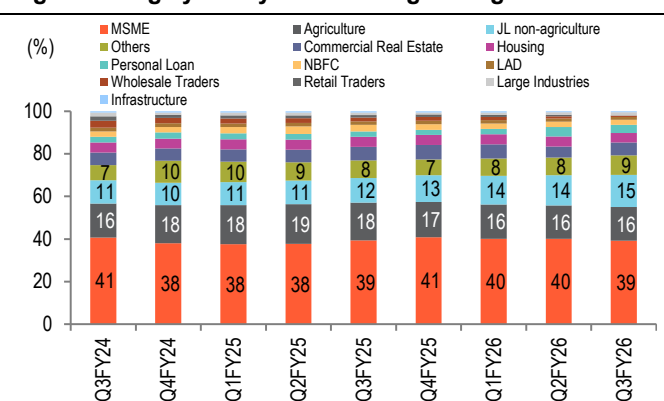
Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

Balance sheet (Rs mn)	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Deposits	5,82,713	6,35,260	6,57,345	6,94,860	7,05,159	21.0	1.5
Growth YoY (%)	11.2	23.0	24.7	31.8	21.0		
Advances	4,94,178	5,20,813	5,30,379	5,66,809	6,00,413	21.5	5.9
Growth YoY (%)	14.8	25.9	24.3	31.8	21.5		
Investment	1,59,855	1,73,361	1,74,958	1,75,187	1,75,577	9.8	0.2
Equity	91,175	94,666	96,855	99,261	1,01,572	11.4	2.3
Assets	7,33,076	7,76,233	7,89,468	8,44,024	8,81,303	20.2	4.4
Growth YoY (%)	10.1	19.5	17.4	24.3	20.2		
Yield (%)							
Yield on Funds	8.86	8.75	8.84	8.72	8.85	(1bps)	13bps
Cost of Funds	5.90	5.90	5.87	5.65	5.47	(43bps)	(18bps)
Spread	2.96	2.86	2.97	3.06	3.37	42bps	31bps
Net Interest Margin	3.52	3.43	3.44	3.52	3.79	27bps	28bps
Ratios (%)							
Other Income / Net Income	28.0	29.5	28.1	28.0	24.6	(339bps)	(340bps)
Cost to Income ratio	46.6	48.2	48.1	49.2	48.6	198bps	(61bps)
CASA ratio	27.7	28.5	27.3	28.1	27.3	(41bps)	(84bps)
C/D ratio	84.8	82.0	80.7	81.6	85.1	34bps	357bps
Investment to Assets	21.8	22.3	22.2	20.8	19.9	(188bps)	(83bps)
Assets Quality							
GNPA	16,930	16,382	16,170	13,932	13,200	(22.0)	(5.3)
NNPA	7,015	6,531	6,346	5,129	4,693	(33.1)	(8.5)
Provision	9,915	9,851	9,824	8,804	8,507	(14.2)	(3.4)
GNPA (%)	3.36	3.09	2.99	2.42	2.17	(119bps)	(25bps)
NNPA (%)	1.42	1.25	1.20	0.90	0.78	(64bps)	(12bps)
Provision (%)	58.56	60.13	60.76	63.19	64.45	588bps	126bps
Others (Nos)							
Branches	822	875	876	889	901	79	12
ATMs	1,693	1,736	1,776	1,709	1,678	(15)	(31)
Employees	7,578	7,605	7,725	7,969	8,573	995	604

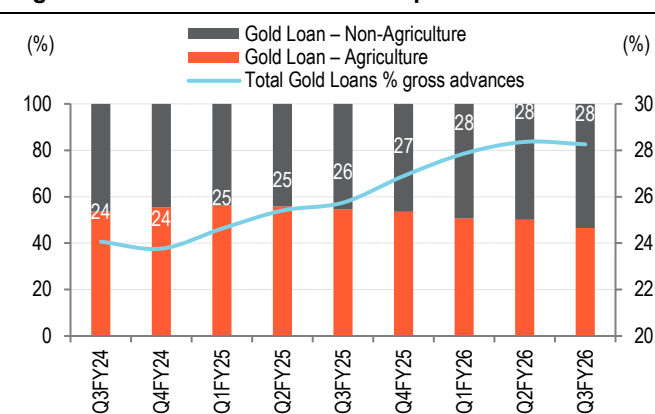
Source: Company, BOBCAPS Research

Fig 3 – Credit growth improves...

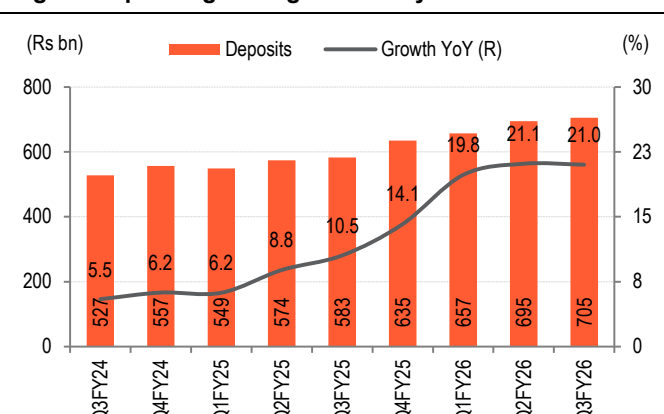
Source: Company, BOBCAPS Research

Fig 4 – ...largely led by MSME and gold segments

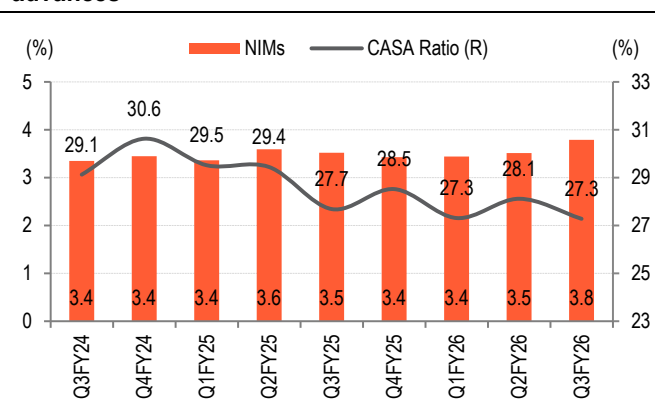
Source: Company, BOBCAPS Research

Fig 5 – Gold loan share at 28.3% of portfolio

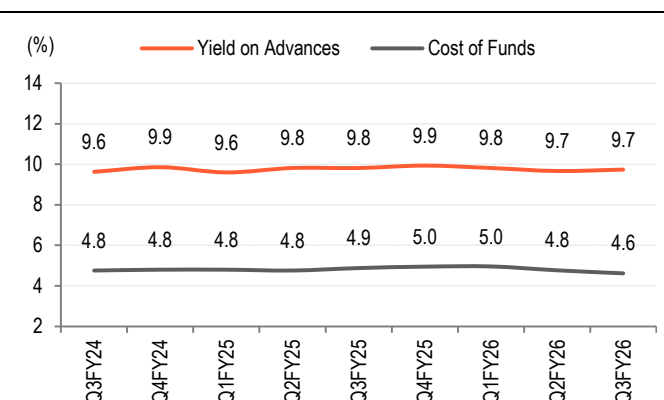
Source: Company, BOBCAPS Research

Fig 6 – Deposits grew higher than system levels

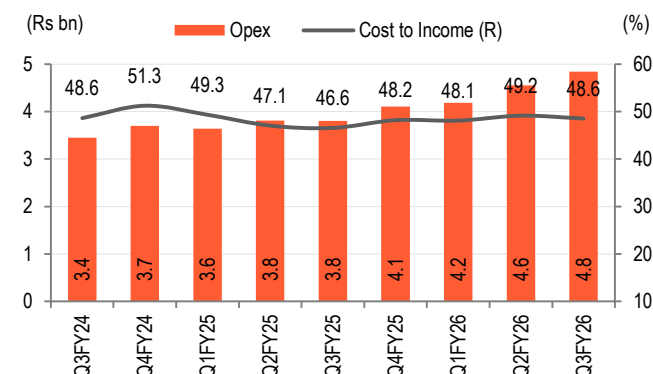
Source: Company, BOBCAPS Research

Fig 7 – NIMs increased on account of higher yields on advances

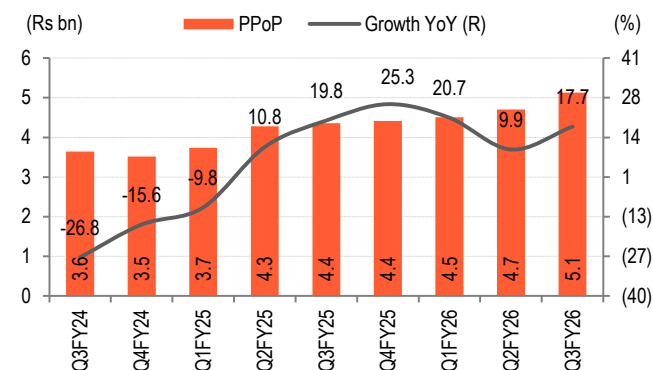
Source: Company, BOBCAPS Research

Fig 8 – COF down mainly due to repricing impact

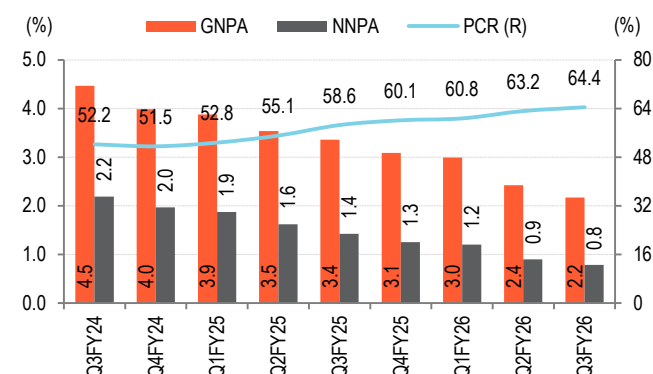
Source: Company, BOBCAPS Research

Fig 9 – Cost-to-income ratio at 48.6%

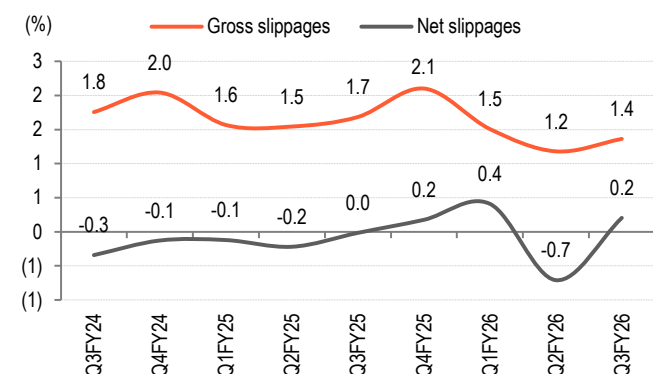
Source: Company, BOBCAPS Research

Fig 10 – PPoP grew 17.7% YoY

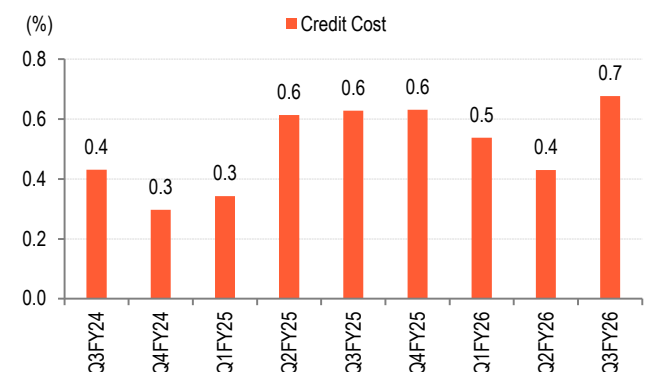
Source: Company, BOBCAPS Research

Fig 11 – Asset quality improved

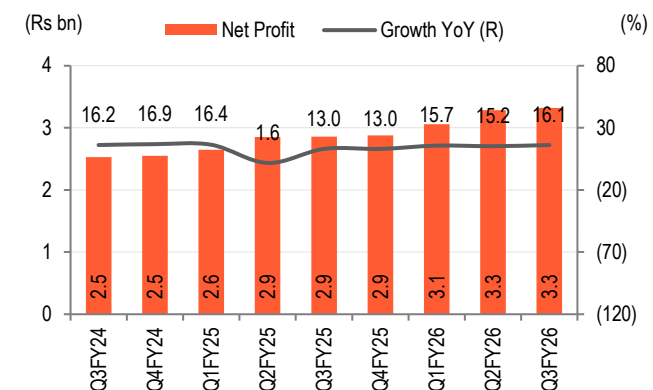
Source: Company, BOBCAPS Research

Fig 12 – Gross slippages vs net slippages

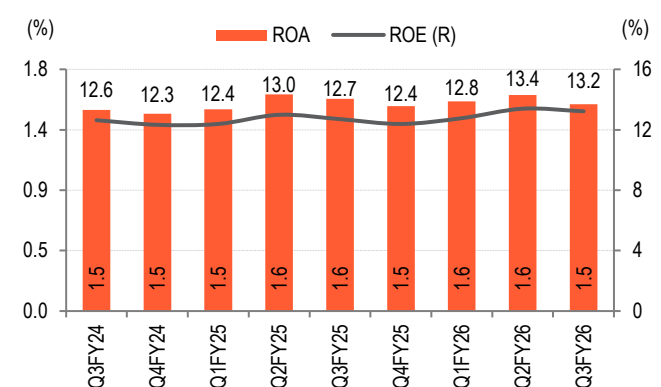
Source: Company, BOBCAPS Research

Fig 13 – CC higher mainly due to higher standard asset provisions

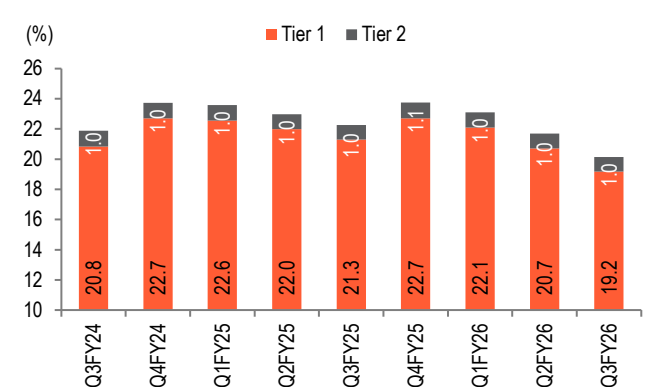
Source: Company, BOBCAPS Research

Fig 14 – Net profit grew 16% YoY

Source: Company, BOBCAPS Research

Fig 15 – Return ratios remain steady

Source: Company, BOBCAPS Research

Fig 16 – Strong capital ratios

Source: Company, BOBCAPS Research

Earnings Call Highlights

Guidance

- **Credit growth:** Mid to high-teens; 2–3% above system levels.
- **Deposit growth:** To track credit growth, led by granular retail deposits and CASA
- **NIM:** Q4FY26 stable within ± 10 bps; medium-term aim to sustain ~3.75–4.0%.
- **ROA:** Maintain 1.5%+ on a sustained basis.
- **Cost-to-income:** 48–50% range for FY26.
- **CD ratio:** Comfortable range of 85–86%.
- **Asset quality:** Recoveries > slippages; further reduction in Net NPA.
- **Provisioning:** Higher provisioning bias to increase PCR and improve Net NPA.
- **SMA levels:** Expected to remain benign and declining.

Loans

- Advances **grew 21% YoY** — the **highest since FY18** — marking the 7th consecutive quarter of double-digit credit growth.
- Growth continues to be driven by **core MSME, gold loans, and secured retail**, with no deviation from the bank's conservative risk appetite.
- Gold loan portfolio has been largely shifted to a **fixed-rate structure**, supporting yield stability and insulating margins from rate volatility.
- The bank is building a **solar/renewable energy book (~5 bn)** on a slow-and-steady basis, offering **yields higher than the core MSME loans**.
- Loan book is well diversified across **EBLR (~48%), MCLR (~17%), and fixed-rate loans (~32%, largely gold loans)** — aiding margin stability.

Asset quality

- Asset quality has **improved consistently for 11 consecutive quarters** with improvement in GNPA ratios.
- Management underscored its conscious decision to maintain **higher provisioning**, with the objective of **further reducing NNPA** and **strengthening the balance sheet**.
- **Total SMA (0,1 and 2)** declined sharply to **3.68%** from **5.06% QoQ**, indicating improvement in early delinquency buckets.
- **SMA-2** reduced to **0.95%**, falling below the 1% threshold.

Profitability

- Management indicated that the **New Labour Codes** are expected to have minimal impact, with only a **small incremental provision (Rs 20mn)** taken in Q3FY26, as employee benefit calculations are already largely aligned with the revised norms.
- ROA stood at **1.53%** in Q3FY26 and **1.55%** for 9MFY26, remaining **above the 1.5%+ target**.
- **ECL requirements:** Due to the reduction in SMA numbers, the bank expects a **"downward bias"** in its future Expected Credit Loss (ECL) requirements.

Valuation Outlook

Valuation Outlook:

CUBK's strong capital position (Tier I of 19.2% as of Dec'25), above-system credit growth, and improving AQ metrics — resulted in an improvement in its return profile. Transformation initiatives in its core MSME segment and a focus on retail vertical augur well for high business growth. We expect CUBK to deliver advances CAGR of ~16.8% over FY25-FY28E and report healthy return ratios with RoA/ RoE of 1.5%/ 13.7% by FY28E. Maintain BUY with TP of Rs 330, set at 1.9x Dec'27E ABV from Rs 313 (1.8x earlier).

Fig 17 – Actual vs Estimates

(Rs mn)	Q3FY26A	Q3FY26E	Change (%)
Loans	6,00,413	5,82,636	3.1
Deposits	7,05,159	7,13,823	(1.2)
Assets	8,81,303	8,69,536	1.4
NII	7,522	7,218	4.2
PPOP	5,132	5,166	(0.7)
Provisions	960	790	21.5
PAT	3,322	3,466	(4.2)

Source: Company, BOBCAPS Research

Fig 18 – Revised Estimates

Key Parameters (Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Loan	6,16,121	7,14,701	8,29,767	6,14,038	7,12,284	8,26,962	0.3	0.3	0.3
Deposits	7,40,077	8,54,789	9,88,991	7,53,418	8,70,198	10,06,819	(1.8)	(1.8)	(1.8)
Assets	9,11,622	10,52,791	12,05,726	9,06,539	10,46,988	12,03,547	0.6	0.6	0.2
NII	28,149	32,686	37,908	26,952	32,003	36,988	4.4	2.1	2.5
PPOP	19,721	22,746	26,463	19,414	22,823	26,444	1.6	(0.3)	0.1
provision	3,210	3,726	4,325	2,780	3,714	4,310	15.5	0.3	0.3
PAT	13,093	15,102	17,489	13,141	15,173	17,486	(0.4)	(0.5)	0.0
ABV (Rs)	137	156	176	137	155	176	0.2	0.1	0.1

Source: Company, BOBCAPS Research

Fig 19 – Key operational assumptions

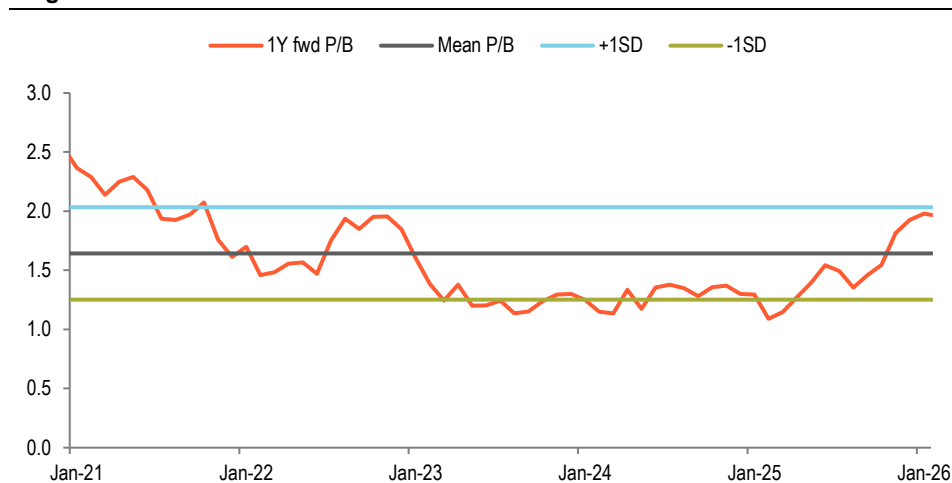
(%)	FY25	FY26E	FY27E	FY28E
Advances Growth	14.4	18.3	16.0	16.1
Net Interest Income Growth	9.1	21.6	16.1	16.0
PPoP Growth	10.7	17.5	15.3	16.3
PAT Growth	10.6	16.5	15.3	15.8
NIM	3.6	3.8	3.8	3.8
GNPA	3.1	2.1	1.8	1.7
CAR	23.8	22.5	21.4	20.8

Source: Company, BOBCAPS Research

Fig 20 – Key valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.5
Equity risk premium (%)	5.5
Beta	1.0
Cost of equity (%)	12.1
Blended ROE (%)	15.0
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	4.5
Long term dividend payout ratio (%)	70.0
Justified P/BV Multiple (x)	1.9

Source: Company, BOBCAPS Research

Fig 21 – PB band chart

Source: Company, BOBCAPS Research

Key Risks

- MD & CEO succession plan:** Dr. N. Kamakodi will retire from the position of MD & CEO by April 30, 2026. Management has submitted the list of candidates to RBI for this position and is awaiting approval. We note that the transition introduces an element of management risk, given the importance of leadership continuity for the bank's strategic direction and operations.
- Regional concentration and low visibility beyond South India:** Around 84% of CUBK's branches were in South India, with Tamil Nadu accounting for ~62% of total branches, as of Dec'25. As a result, the bank remains exposed to regional concentration and is vulnerable to any adverse changes in the local economic and political environments.
- High share of Jewel loans:** Jewel loans account for 28.3% of gross loans, as of Dec'25. In case of any sharp correction in gold prices, this may lead to delinquency issues; however, it remains cushioned by comfortable LTV currently. Also, any regulatory changes pertaining to gold lending could impact the segment's growth prospect.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	21,235	23,157	28,149	32,686	37,908
Nil growth (%)	(1.8)	9.1	21.6	16.1	16.0
Non-interest income	7,417	8,981	10,212	10,804	12,083
Total income	28,651	32,138	38,361	43,491	49,991
Operating expenses	13,484	15,351	18,640	20,745	23,528
PPOP	15,167	16,786	19,721	22,746	26,463
PPOP growth (%)	(16.6)	10.7	17.5	15.3	16.3
Provisions	2,860	2,620	3,210	3,726	4,325
PBT	12,307	14,166	16,511	19,020	22,138
Tax	2,150	2,930	3,418	3,918	4,649
Reported net profit	10,157	11,236	13,093	15,102	17,489
Adjustments	0	0	0	0	0
Adjusted net profit	10,157	11,236	13,093	15,102	17,489

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	741	741	741	741	741
Reserves & surplus	83,274	93,925	1,05,447	1,18,887	1,34,453
Net worth	84,014	94,666	1,06,188	1,19,628	1,35,194
Deposits	5,56,566	6,35,260	7,40,077	8,54,789	9,88,991
Borrowings	47,242	21,694	42,356	50,404	59,224
Other liab. &	20,436	24,612	23,001	27,969	22,316
Total liab. & equities	7,08,259	7,76,232	9,11,622	10,52,791	12,05,726
Cash & bank balance	69,435	52,905	72,893	76,155	80,204
Investments	1,56,641	1,73,361	1,88,399	2,23,610	2,53,943
Advances	4,55,257	5,20,813	6,16,121	7,14,701	8,29,767
Fixed & Other assets	26,925	29,153	34,209	38,324	41,811
Total assets	7,08,259	7,76,232	9,11,622	10,52,791	12,05,726
Deposit growth (%)	6.2	14.1	16.5	15.5	15.7
Advances growth (%)	5.7	14.4	18.3	16.0	16.1

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	13.7	15.2	17.7	20.4	23.6
Dividend per share	1.5	2.0	2.1	2.2	2.6
Book value per share	113.4	127.8	143.3	161.4	182.5

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	20.8	18.8	16.2	14.0	12.1
P/BV	2.5	2.2	2.0	1.8	1.6
Dividend yield (%)	0.5	0.7	0.7	0.8	0.9

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	3.1	3.1	3.3	3.3	3.4
Non-interest income	1.1	1.2	1.2	1.1	1.1
Operating expenses	2.0	2.1	2.2	2.1	2.1
Pre-provisioning profit	2.2	2.3	2.3	2.3	2.3
Provisions	0.4	0.4	0.4	0.4	0.4
PBT	1.8	1.9	2.0	1.9	2.0
Tax	0.3	0.4	0.4	0.4	0.4
ROA	1.5	1.5	1.6	1.5	1.5
Leverage (x)	8.7	8.3	8.4	8.7	8.9
ROE	12.8	12.6	13.0	13.4	13.7

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	(1.8)	9.1	21.6	16.1	16.0
Pre-provisioning profit	(16.6)	10.7	17.5	15.3	16.3
EPS	8.3	10.6	16.5	15.3	15.8
Profitability & Return ratios (%)					
Net interest margin	3.7	3.6	3.8	3.8	3.8
Fees / Avg. assets	27.0	30.2	30.3	27.5	26.8
Cost-Income	47.1	47.8	48.6	47.7	47.1
ROE	12.8	12.6	13.0	13.4	13.7
ROA	1.5	1.5	1.6	1.5	1.5
Asset quality (%)					
GNPA	4.0	3.1	2.1	1.8	1.7
NNPA	2.0	1.3	0.7	0.6	0.6
Slippage ratio	2.4	1.8	1.5	1.4	1.4
Credit cost	0.6	0.5	0.6	0.6	0.6
Provision coverage	50.5	59.4	64.5	66.1	66.6
Ratios (%)					
Credit-Deposit	81.8	82.0	83.3	83.6	83.9
Investment-Deposit	28.1	27.3	25.5	26.2	25.7
CAR	23.7	23.8	22.5	21.4	20.8
Tier-1	22.7	22.7	21.5	20.5	19.8

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

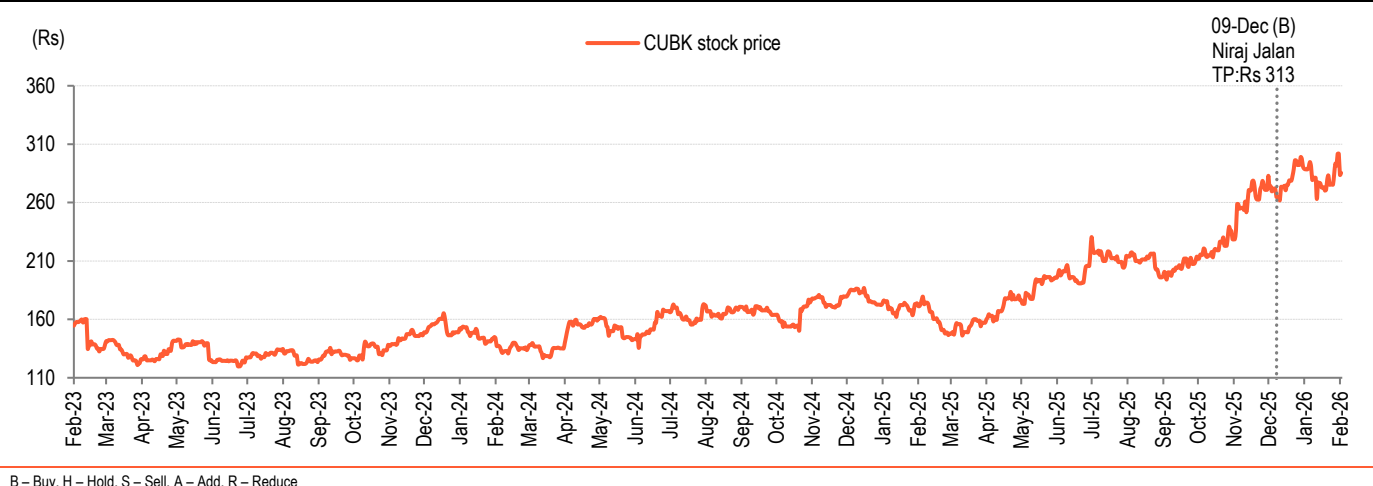
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): CITY UNION BANK (CUBK IN)



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