

BUY

TP: Rs 340 | ▲ 25%

CITY UNION BANK

| Banking

| 28 April 2026

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Steady return profile with consistent AQ improvement

- PAT marginally above estimates. Sustainable return metrics with consistent ROA delivery of ~1.5%
- Advances growth to stay above system levels; AQ improving with NNPA ratio at a multi-quarter low. Leadership transition underway
- Maintain BUY with a revised TP of Rs 340 (from Rs 330), set at 1.9x Mar'28E ABV (unchanged), on the back of steady return profile

PAT marginally above estimates; return ratios remain steady: CUBK reported PPOP of Rs 5.8bn (+31% YoY; +13% QoQ) and was 6.1% higher than our estimates. The healthy growth in PPOP was mainly on the back of NII growing to Rs 7.9bn (+31% YoY; +4.5% QoQ). NII growth was driven by a strong net advances growth of 26.5% YoY — well above system levels. Management expects loan growth to sustain in the mid-to-high teens range, or 2–3% above system growth, with continued focus on MSME, gold loans, and secured retail segments. While NIMs improved to 3.74% (+14bps YoY) in FY26. Management expects NIMs to be largely stable in FY27 and move in a range of ±5-10bps. C/I ratio improved to 46.2% from 48.6% in Q3FY26. Despite a rise in provisions to Rs 1.2bn (+54% YoY), PAT increased to Rs 3.6bn (+25% YoY) or 1.8% marginally higher than our estimates. As a result, return ratios remain steady with RoA/RoE of 1.56%/14.2% in Q4FY26. Management expects RoA to improve by ~10bps to ~1.65-1.66% in FY27.

AQ improving with NNPA ratio at a multi-quarter low: Asset quality (AQ) continued to improve with absolute GNPA levels down to Rs 12.7bn (-4% QoQ). Hence, GNPA ratio improved to 1.91% (-26bps QoQ). The improvement in GNPA was supported by lower slippages of Rs 7.4bn (-9% YoY) and higher w/off of Rs 4bn (+2x) in FY26. With a consistent rise in PCR (including technical write-offs) to 84% in Q4FY26 vs 78% in Q4FY25, NNPA ratio improved to a multi-quarter low of 0.68% (-10bps QoQ). Further, SMA 2 declined to 0.72% (-23bps QoQ) of total loans in Q4FY26, indicating an improvement in the early delinquency buckets.

Leadership transition: Mr. R. Vijay Anandh is set to take charge as MD & CEO effective May 1, 2026, as part of a planned succession. While the transition marks a leadership change, management indicated strategic continuity with no material shift in the business focus or risk appetite.

Maintain BUY: CUBK's strong capital position (Tier I of 20.8%), above-system credit growth, and improving AQ metrics — resulted in a steady return profile. We expect the bank to report RoA/RoE of 1.7%/15.5% by FY29E. We maintain BUY with revised TP of Rs 340 (from Rs 330), set at (1.9x Mar'28E ABV) (unchanged).

Key changes

Target	Rating
▲	◀▶

Ticker/Price	CUBK IN/Rs 271
Market cap	US\$ 2.1bn
Free float	100%
3M ADV	US\$ 7.4mn
52wk high/low	Rs 324/Rs 172
Promoter/FPI/DII	0%/23%/41%

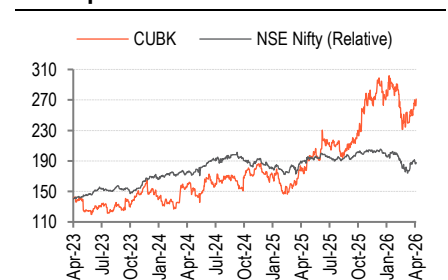
Source: NSE | Price as of 27 Apr 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
NII (Rs mn)	28,298	34,182	39,865
NII growth (%)	22.2	20.8	16.6
Adj. net profit (Rs mn)	13,262	16,131	19,116
EPS (Rs)	17.9	21.7	25.7
Consensus EPS (Rs)	17.9	20.8	24.3
P/E (x)	15.2	12.5	10.5
P/BV (x)	1.9	1.7	1.5
ROA (%)	1.5	1.6	1.6
ROE (%)	13.2	14.3	14.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	12,432	12,902	13,318	14,346	15,155	21.9	5.6
Income on investments	2,714	2,864	2,876	2,937	3,114	14.8	6.0
Int. on bal. with RBI & inter-bank funds & Others	181	287	338	273	287	58.6	5.1
Interest income	15,327	16,053	16,531	17,557	18,556	21.1	5.7
Interest expense	9,324	9,800	9,866	10,035	10,698	14.7	6.6
Net interest income	6,003	6,253	6,665	7,522	7,858	30.9	4.5
Growth YoY (%)	14.9	16.1	29.2	28.0	30.9		
Fee Income	1,491	1,226	1,346	1,538	1,737	16.5	12.9
Trading gains/(losses)	262	644	216	212	287	9.5	35.4
Non-interest income	2,512	2,439	2,591	2,453	2,905	15.6	18.4
Growth YoY (%)	31.2	33.9	34.4	7.4	15.6		
Total income	8,515	8,692	9,257	9,975	10,763	26.4	7.9
Growth YoY (%)	19.3	20.6	30.6	22.2	26.4		
Staff expenses	1,965	2,006	2,244	2,302	2,346	19.4	1.9
Other operating expenses	2,140	2,176	2,307	2,541	2,621	22.5	3.1
Operating expenses	4,106	4,182	4,551	4,844	4,967	21.0	2.6
Pre-Provisioning Profit (PPoP)	4,410	4,509	4,706	5,132	5,796	31.4	12.9
Growth YoY (%)	6.4	16.6	29.3	17.7	31.4		
Provisions	780	700	570	960	1,200	53.8	25.0
Growth YoY (%)	(48.7)	25.0	23.9	28.0	53.8		
Exceptional Item	-	-	-	-	-	-	-
PBT	3,630	3,809	4,136	4,172	4,596	26.6	10.2
Tax	750	750	850	850	1,000	33.3	17.6
PAT	2,880	3,059	3,286	3,322	3,596	24.9	8.3
Growth YoY (%)	26.7	9.0	29.9	16.1	24.9		
Per Share	12,432	12,902	13,318	14,346	15,155	21.9	5.6
FV (Rs)	2,714	2,864	2,876	2,937	3,114	14.8	6.0
EPS (Rs)	181	287	338	273	287	58.6	5.1
Book Value (Rs)	15,327	16,053	16,531	17,557	18,556	21.1	5.7

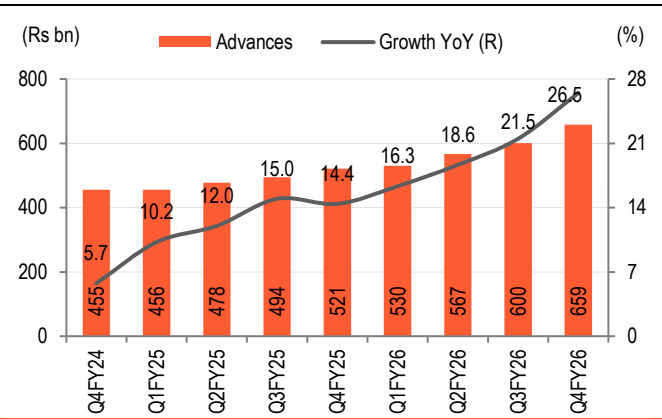
Source: Company, BOBCAPS Research

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

Balance sheet (Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Deposits	6,35,260	6,57,345	6,94,860	7,05,159	7,83,080	23.3	11.1
Growth YoY (%)	23.0	24.7	31.8	21.0	23.3		
Advances	5,20,813	5,30,379	5,66,809	6,00,413	6,58,752	26.5	9.7
Growth YoY (%)	25.9	24.3	31.8	21.5	26.5		
Investment	1,73,361	1,74,958	1,75,187	1,75,577	1,89,869	9.5	8.1
Equity	94,666	96,855	99,261	1,01,572	1,05,649	11.6	4.0
Assets	7,76,233	7,89,468	8,44,024	8,81,303	9,70,244	25.0	10.1
Growth YoY (%)	19.5	17.4	24.3	20.2	25.0		
Yield (%)							
Yield on Funds	8.75	8.84	8.72	8.85	8.66	(9bps)	(19bps)
Cost of Funds	5.90	5.87	5.65	5.47	5.39	(50bps)	(8bps)
Spread	2.86	2.97	3.06	3.37	3.27	41bps	(11bps)
Net Interest Margin	3.43	3.44	3.52	3.79	3.67	24bps	(12bps)
Ratios (%)							
Other Income / Net Income	29.5	28.1	28.0	24.6	27.0	(251bps)	239bps
Cost to Income ratio	48.2	48.1	49.2	48.6	46.2	(206bps)	(240bps)
CASA ratio	28.5	27.3	28.1	27.3	27.6	(88bps)	36bps
C/D ratio	82.0	80.7	81.6	85.1	84.1	214bps	(102bps)
Investment to Assets	22.3	22.2	20.8	19.9	19.6	(276bps)	(35bps)
Assets Quality							
GNPA	16,382	16,170	13,932	13,200	12,731	(22.3)	(3.6)
NNPA	6,531	6,346	5,129	4,693	4,494	(31.2)	(4.2)
Provision	9,851	9,824	8,804	8,507	8,237	(16.4)	(3.2)
GNPA (%)	3.09	2.99	2.42	2.17	1.91	(118bps)	(26bps)
NNPA (%)	1.25	1.20	0.90	0.78	0.68	(57bps)	(10bps)
Provision (%)	60.13	60.76	63.19	64.45	64.70	456bps	25bps
Others (Nos)							
Branches	875	876	889	901	949	74	48
ATMs	1,736	1,776	1,709	1,678	1,764	28	86
Employees	7,605	7,725	7,969	8,573	8,894	1,289	321

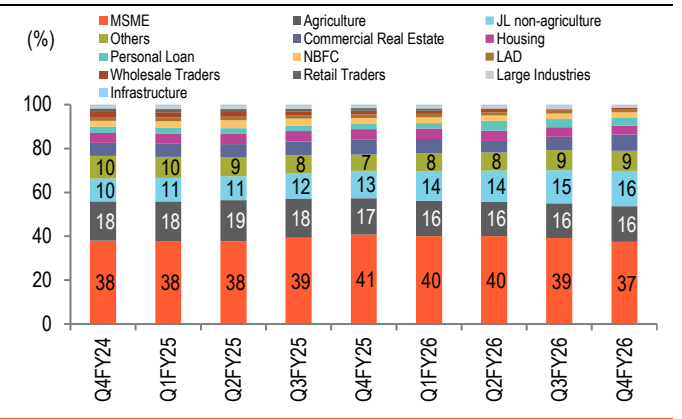
Source: Company, BOBCAPS Research

Fig 3 – Credit growth improves...



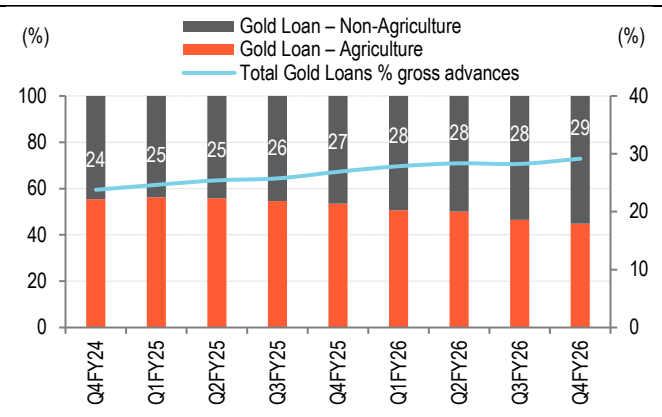
Source: Company, BOBCAPS Research

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



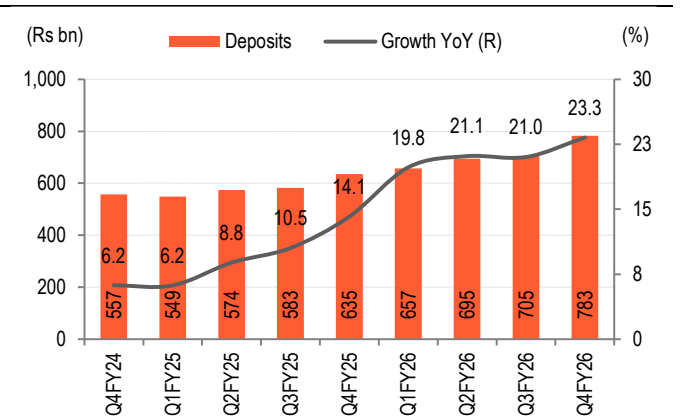
Source: Company, BOBCAPS Research

Fig 5 – Gold loan share at 29.2% of portfolio



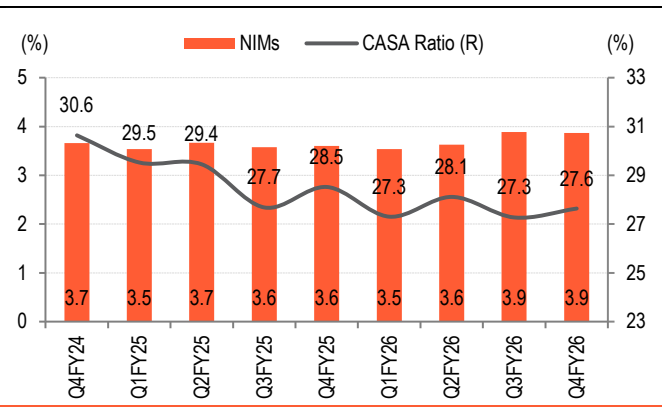
Source: Company, BOBCAPS Research

Fig 6 – Deposits grew higher than system levels



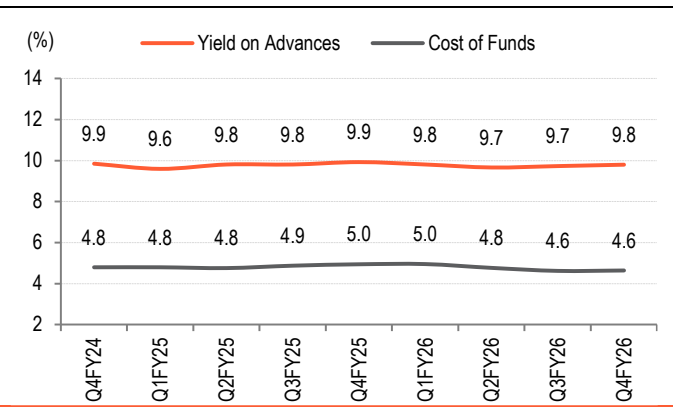
Source: Company, BOBCAPS Research

Fig 7 – NIMs largely stable



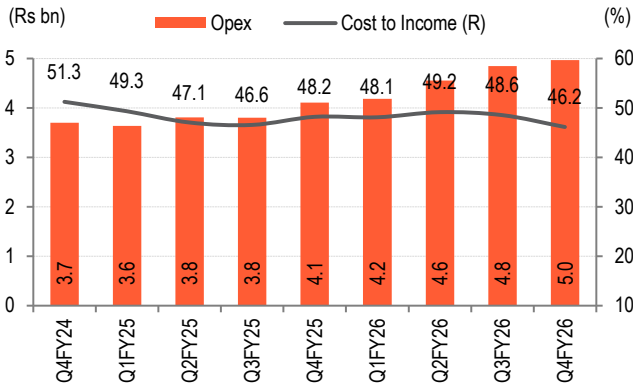
Source: Company, BOBCAPS Research

Fig 8 – Yield on advances increased 3bps QoQ



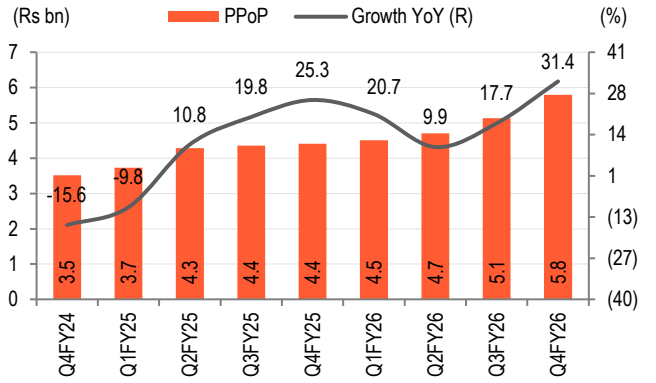
Source: Company, BOBCAPS Research

Fig 9 – Cost-to-income ratio improved to 46.2%



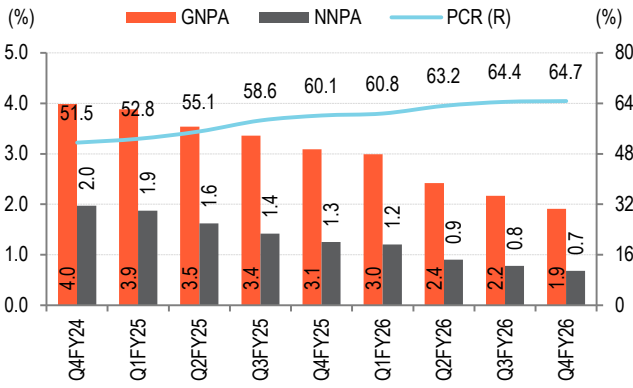
Source: Company, BOBCAPS Research

Fig 10 – PPOP grew 31.4% YoY



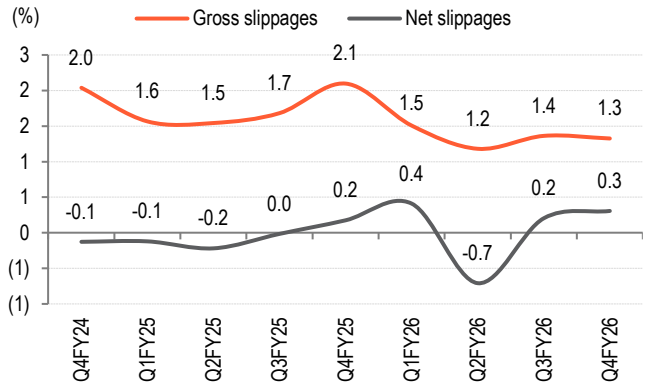
Source: Company, BOBCAPS Research

Fig 11 – Asset quality improved



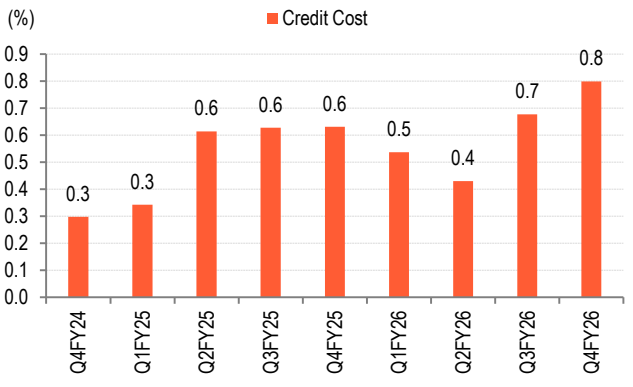
Source: Company, BOBCAPS Research

Fig 12 – Gross slippages vs net slippages



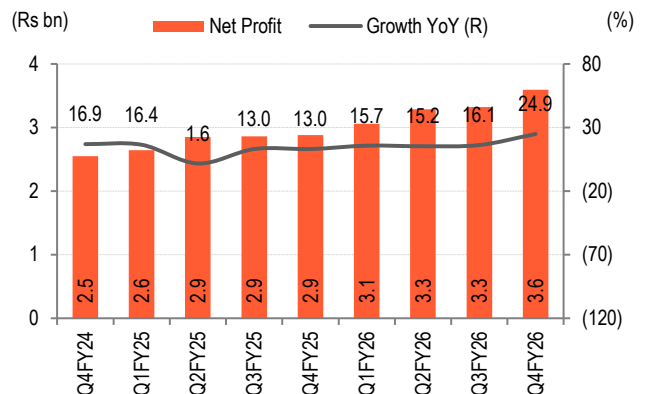
Source: Company, BOBCAPS Research

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



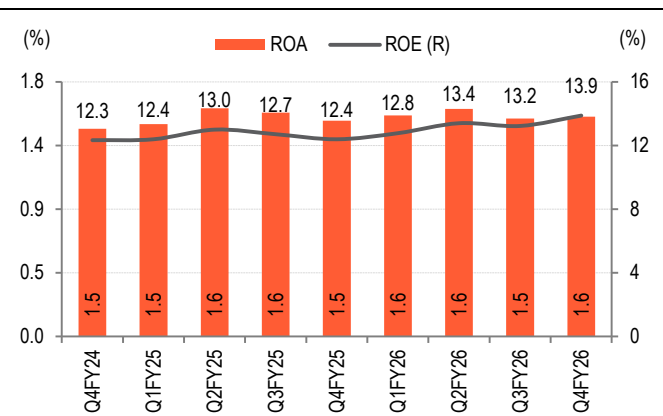
Source: Company, BOBCAPS Research

Fig 14 – Net profit grew 24.9% YoY



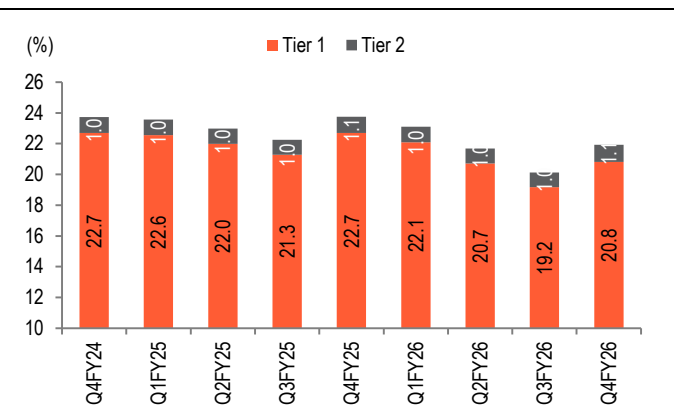
Source: Company, BOBCAPS Research

Fig 15 – Return ratios improved



Source: Company, BOBCAPS Research

Fig 16 – Strong capital ratios



Source: Company, BOBCAPS Research

Earnings Call Highlights

- **The bank targets loan growth at 2–3% above industry, implying mid-to-high teens growth**, with focus on MSME (55–60% of book), gold loans (30–35%), and balance in secured retail segment.
- Sourcing remains largely branch-led with third-party channels kept at just 1–2% of book, reflecting a conservative distribution approach.
- **NIMs expected to stay stable within a ±5-10bps band**, supported by the fixed-rate nature of gold loans and the bank’s ability to manage spreads through rate cycles.
- **ROA guided at 1.65%-1.66% in FY27** vs ~1.56% in FY26, with improvement driven by lower credit costs and operating leverage; further expansion possible as the provisioning normalises over time.
- Asset quality is at its best in decades — GNPA below 2% for the first time in 11 years, recoveries continue to exceed slippages, and SMA trends are improving sharply; pointing to a structurally declining credit cost trajectory (targeting ~50% reduction vs historical averages) in the average of the next 15 years or so.
- Cost-to-income to improve gradually via operating leverage, though **opex will rise 15–18% in FY27**, due to front-loaded expansion of 70 branches added early in the year.
- **CD ratio targeted at 85–87%**, with deposit growth tracking credit growth. Focus remains on CASA and granular retail term deposits to reduce reliance on bulk CDs.
- **Gold loan share is internally capped at 30–32%** with LTV cushions maintained despite rising gold prices, reflecting disciplined underwriting. MSME demand is being driven by higher capacity utilisation, working capital needs, and some balance transfers.
- SMA data and ground-level feedback are actively used to tighten underwriting proactively. Management is monitoring geopolitical risks and oil prices, but sees no visible stress in the portfolio yet.

- On the other income front, share of **fee income is expected to remain 55–60%**.
- Credit guarantee schemes are used minimally (~2–3%), as customers prefer lower rates over guarantees.
- **CEO transition from N. Kamakodi to R. Vijay Anandh is effective May 1, 2026**, with no anticipated change in strategy or risk appetite.

Valuation Outlook

Valuation Outlook:

CUBK's strong capital position (Tier I of 20.8%), above-system credit growth, and improving AQ metrics — resulted in a steady 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 ~15.5% over FY26-FY29E and report healthy return ratios with RoA/ RoE of 1.7%/15.5% by FY29E. We maintain BUY with revised TP of Rs 340 (from Rs 330), set at (1.9x Mar'28E ABV) (unchanged).

Fig 17 – Actual vs Estimates

(Rs mn)	Q4FY26A	Q4FY26E	Change (%)
Loans	6,58,752	6,24,975	5.4
Deposits	7,83,080	7,43,254	5.4
Assets	9,70,244	9,14,116	6.1
NII	7,858	7,785	0.9
PPOP	5,796	5,465	6.1
Provisions	1,200	1,021	17.5
PAT	3,596	3,532	1.8

Source: Company, BOBCAPS Research

Fig 18 – Revised estimates

Estimates Key Parameters (Rs mn)	New		Old		Change (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Loan	7,57,564	8,74,987	7,14,701	8,29,767	6.0	5.4
Deposits	8,96,626	10,28,430	8,54,789	9,88,991	4.9	4.0
Assets	11,10,224	12,71,781	10,52,791	12,05,726	5.5	5.5
NII	34,182	39,865	32,686	37,908	4.6	5.2
PPOP	23,362	27,626	22,746	26,463	2.7	4.4
Provision	3,045	3,428	3,726	4,325	(18.3)	(20.7)
PAT	16,131	19,116	15,102	17,489	6.8	9.3
ABV (Rs)	155	178	156	176	(0.2)	0.9

Source: Company, BOBCAPS Research

Fig 19 – Key operational assumptions

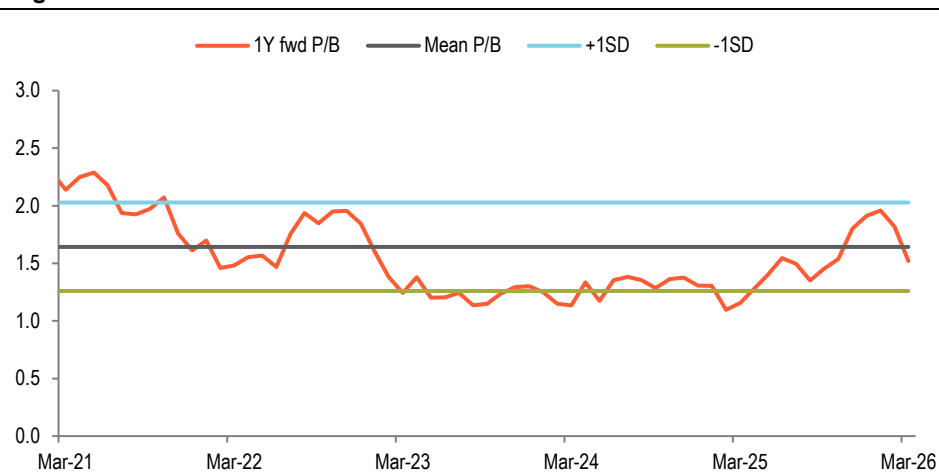
(%)	FY26A	FY27E	FY28E	FY29E
Advances Growth	26.5	15.0	15.5	16.0
Net Interest Income Growth	22.2	20.8	16.6	15.9
PPoP Growth	20.0	16.0	18.3	15.6
PAT Growth	18.0	21.6	18.5	19.1
NIM	3.7	3.7	3.8	3.9
GNPA	1.9	1.7	1.7	1.5
CAR	21.9	20.5	19.9	19.7

Source: Company, BOBCAPS Research

Fig 20 – Key valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.9
Equity risk premium (%)	5.5
Beta	1.0
Cost of equity (%)	12.6
Blended ROE (%)	15.5
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	4.7
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

- Regional concentration and low visibility beyond South India:** Around 82% of CUBK's branches were in South India, with Tamil Nadu accounting for ~61% of total branches, as of Mar'26. 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 29.2% of gross loans, as of Mar'26. Any sharp correction in gold prices 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 prospects.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	23,157	28,298	34,182	39,865	46,195
Nil growth (%)	9.1	22.2	20.8	16.6	15.9
Non-interest income	8,981	10,388	10,506	12,029	13,714
Total income	32,138	38,687	44,689	51,894	59,908
Operating expenses	15,351	18,544	21,327	24,268	27,960
PPOP	16,786	20,142	23,362	27,626	31,948
PPOP growth (%)	10.7	20.0	16.0	18.3	15.6
Provisions	2,620	3,430	3,045	3,428	3,118
PBT	14,166	16,712	20,317	24,197	28,830
Tax	2,930	3,450	4,185	5,081	6,054
Reported net profit	11,236	13,262	16,131	19,116	22,776
Adjustments	0	0	0	0	0
Adjusted net profit	11,236	13,262	16,131	19,116	22,776

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Equity capital	741	743	743	743	743
Reserves & surplus	93,925	1,04,906	1,19,262	1,36,276	1,56,546
Net worth	94,666	1,05,649	1,20,006	1,37,019	1,57,289
Deposits	6,35,260	7,83,080	8,96,626	10,28,430	11,82,695
Borrowings	21,694	53,268	63,389	74,482	87,516
Other liab. &	24,612	28,248	30,204	31,850	43,481
Total liab. & equities	7,76,232	9,70,244	11,10,224	12,71,781	14,70,981
Cash & bank balance	52,905	89,271	80,206	83,740	96,184
Investments	1,73,361	1,89,869	2,35,323	2,68,181	3,08,506
Advances	5,20,813	6,58,752	7,57,564	8,74,987	10,14,985
Fixed & Other assets	29,153	32,352	37,130	44,873	51,306
Total assets	7,76,232	9,70,244	11,10,224	12,71,781	14,70,981
Deposit growth (%)	14.1	23.3	14.5	14.7	15.0
Advances growth (%)	14.4	26.5	15.0	15.5	16.0

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
EPS	15.2	17.9	21.7	25.7	30.7
Dividend per share	2.0	2.0	2.4	2.8	3.4
Book value per share	127.8	142.2	161.5	184.4	211.7

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
P/E	17.9	15.2	12.5	10.5	8.8
P/BV	2.1	1.9	1.7	1.5	1.3
Dividend yield (%)	0.7	0.7	0.9	1.0	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	3.1	3.2	3.3	3.3	3.4
Non-interest income	1.2	1.2	1.0	1.0	1.0
Operating expenses	2.1	2.1	2.1	2.0	2.0
Pre-provisioning profit	2.3	2.3	2.2	2.3	2.3
Provisions	0.4	0.4	0.3	0.3	0.2
PBT	1.9	1.9	2.0	2.0	2.1
Tax	0.4	0.4	0.4	0.4	0.4
ROA	1.5	1.5	1.6	1.6	1.7
Leverage (x)	8.3	8.7	9.2	9.3	9.3
ROE	12.6	13.2	14.3	14.9	15.5

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Net interest income	9.1	22.2	20.8	16.6	15.9
Pre-provisioning profit	10.7	20.0	16.0	18.3	15.6
EPS	10.6	17.8	21.5	18.5	19.1
Profitability & Return ratios (%)					
Net interest margin	3.6	3.7	3.7	3.8	3.9
Fees / Avg. assets	30.2	29.7	25.3	25.3	25.0
Cost-Income	47.8	47.9	47.7	46.8	46.7
ROE	12.6	13.2	14.3	14.9	15.5
ROA	1.5	1.5	1.6	1.6	1.7
Asset quality (%)					
GNPA	3.1	1.9	1.7	1.7	1.5
NNPA	1.3	0.7	0.6	0.6	0.5
Slippage ratio	1.8	1.4	1.4	1.3	1.3
Credit cost	0.5	0.6	0.4	0.4	0.3
Provision coverage	59.4	64.3	64.6	65.6	66.7
Ratios (%)					
Credit-Deposit	82.0	84.1	84.5	85.1	85.8
Investment-Deposit	27.3	24.2	26.2	26.1	26.1
CAR	23.8	21.9	20.5	19.9	19.7
Tier-1	22.7	20.8	19.5	19.0	18.9

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

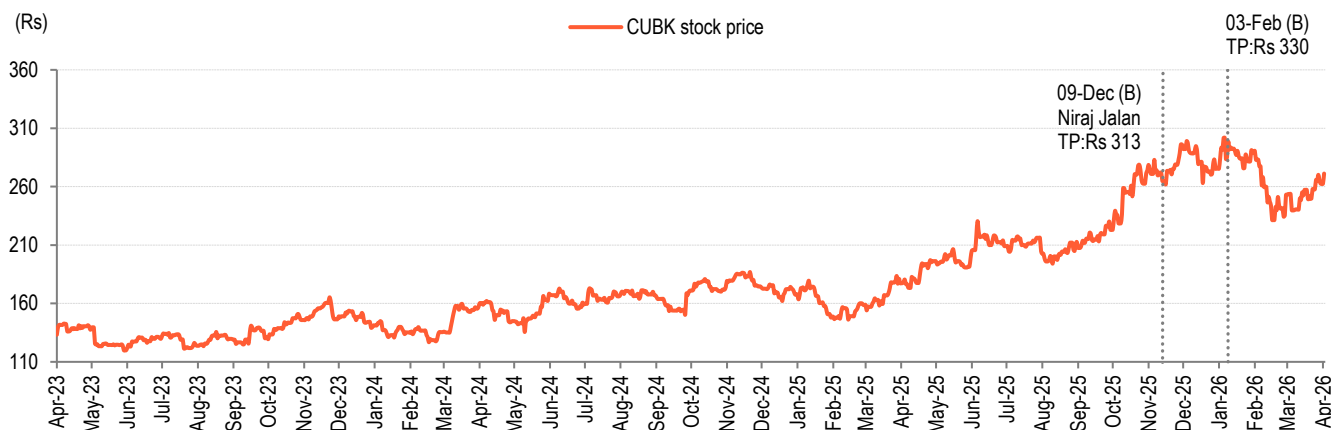
HOLD – Expected return from -6% to +15%

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)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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