

Accumulate

Sector: Banking

05<sup>th</sup> March 2025

<b>Key Changes:</b>	<b>Target</b> ▼	<b>Rating</b> ●	<b>Earnings</b> ▲	<b>Target</b>	<b>Rs.167</b>
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Small Cap	CUBK:IN	72,990	CUB	532210	12 Months
				<b>CMP</b>	<b>Rs.147</b>
				<b>Return</b>	<b>+14%</b>

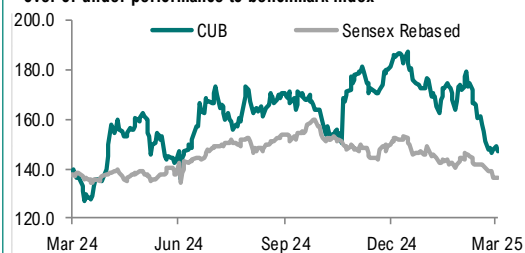
Data as of: 04-03-2025

Company Data			
Market Cap (Rs. cr)	11,085		
52 Week High — Low (Rs.)	188-125		
Outstanding Shares (Rs cr)	74.1		
Free Float (%)	97.0		
Dividend Yield (%)	1.0		
6m average volume (million)	4.3		
Beta	1.0		
Face value (Rs.)	1.0		

Shareholding (%)	Q1FY25	Q2FY25	Q3FY25
Promoters	-	-	-
FII's	26.4	26.0	27.4
MFs/Institutions	32.6	33.6	33.6
Public	41.0	40.4	39.0
Total	100.0	100.0	100.0
Promoter Pledge	-	-	-

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-20.5%	-12.6%	5.2%
Absolute Sensex	-9.8%	-11.4%	-1.2%
Relative Return	-10.6%	-1.3%	6.4%

\*over or under performance to benchmark index



Standalone (Rs cr)	FY25E	FY26E	FY27E
NII	2,361	2,615	2,903
Growth(%)	11.2	10.8	11.0
NIM(%)	3.6	3.4	3.3
Provisions	279	281	321
Adj. PAT	1,072	1,271	1,333
Growth(%)	5.6	18.5	4.9
Adj. EPS	14.4	17.0	17.9
Growth(%)	5.6	18.5	4.9
BVPS	126.4	142.1	158.5
Adj BVPS	111.2	128.3	144.5
P/E	10.4	8.8	8.4
P/B	1.2	1.1	0.9
Adj. P/B	1.3	1.2	1.0
ROE(%)	12.1	12.8	12.0

## Regaining momentum...

**City Union Bank Ltd. (CUB), the oldest private sector bank in India, is a mid-sized commercial bank headquartered in Tamil Nadu, with a network of 822 branches spread across the country and a loan book size of Rs.50,409cr.**

- Gross Advances grew robustly by 15% YoY, marking the highest growth achieved in the last three years. Deposit growth advanced by 11% YoY, reaching Rs. 58,271 crore, with CASA growing by 5% YoY. However, the CASA ratio declined from 29% in Q3 FY24 to 27% in Q3 FY25.
- The yield on advances increased by 19 bps YoY to 9.81%, while the cost of deposits rose by 21 bps YoY. This resulted in the Net Interest Margin (NIM) only marginally expanding by 8 bps YoY to 3.58%. Net Interest Income grew by 14% YoY in Q3 FY25.
- The cost-to-income ratio improved to 46.6% compared to 48.6% in Q3FY24, with PAT growing by 13% YoY to Rs. 286 crore.
- Asset quality continues to improve, with GNPA/NNPA standing at 3.36%/1.42%, respectively, compared to 4.47%/2.19% during Q3FY24. The current trend of higher recoveries than slippages is expected to continue through FY25.
- The Provision Coverage Ratio (PCR) improved from 71% in Q3 FY24 to 77% in Q3 FY25.

## Outlook &amp; Valuation

The bank has insulated itself from the current issues in the micro segment by focusing on the secured MSME segment without compromising on returns. This strategy has helped the bank improve asset quality, targeting its Net NPA to be between 1-1.25% in FY26. Although the bank expects a temporary contraction in NIM due to the timing difference in the repricing of assets and liabilities, it anticipates returns in line with historic averages. **Therefore, we reiterate an ACCUMULATE rating on the stock with a revised target price of Rs. 167, based on 1.05x FY27E BVPS.**

## Quarterly Financials (Standalone)

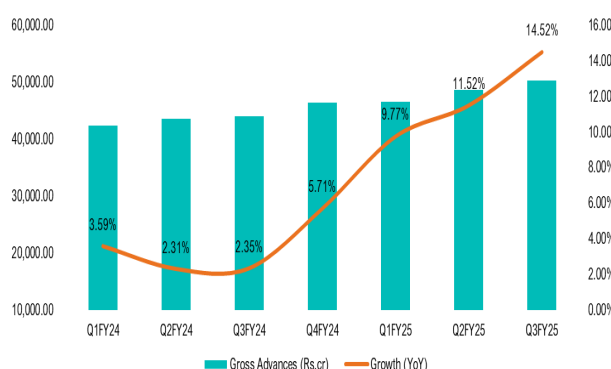
Rs cr	Q3FY25	Q2FY25	QoQ(%)	Q3FY24	YoY (%)	9MFY25	9MFY24	YoY(%)
Net Interest Income (NII)	588	582	0.90	516	13.9	1,715	1,577	8.8
Total Income	816	809	0.91	709	15.1	2362	2143	10.2
Expenditure	380	381	-0.13	345	10.3	1,125	978	14.9
Pre-Provision Profit	436	428	1.83	364	19.8	1,238	1,165	6.2
Provision	75	70	7.14	46	63.0	184	254	-27.6
PBT	361	358	0.79	318	13.5	1,054	911	15.7
Reported PAT	286	285	0.29	253	13.0	836	761	9.8
Diluted EPS	3.8	3.8	0.26	3.4	13.0	11.2	10.2	9.7



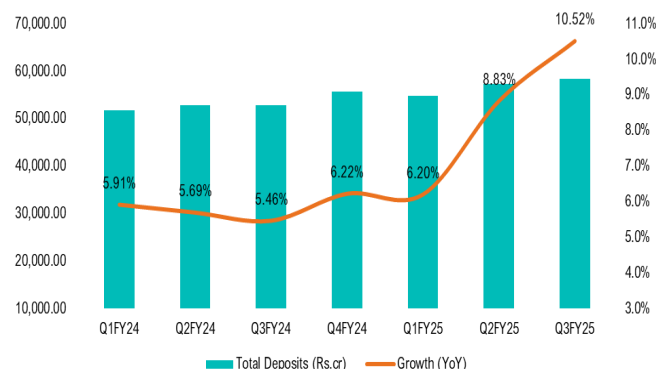
## Key Highlights

- The bank has insulated itself from issues in the micro segment by focusing on secured MSME loans. This strategic approach has been complemented by improved efficiency and credit growth through digital lending processes. Additionally, the bank is on track to reach 850-875 branches by the end of the financial year, with a particular focus on expanding in North and West India.
- The bank will launch a co-branded credit card in partnership with Chennai Super Kings (CSK). This initiative aims to enhance the bank's product offerings for its existing customers by addressing gaps in current credit card features. This move focuses on providing value-added benefits to the bank's loyal customer base while leveraging the popularity of CSK to expand its market reach.
- The management mentions that the NIM might experience some moderation because assets reprice more quickly than liabilities. While the yield on advances may decrease immediately following a rate cut, the cost of deposits will take a few quarters to adjust. Despite this, the management expects the NIM to remain stable around 3.6%, with a plus or minus 10 bps variation, over the year as a whole, due to the gradual repricing of liabilities catching up with assets.
- The management expects advances to grow by 12-14% over the next 2-3 years, primarily driven by the MSME and retail segments. To support this growth, the bank aims to match credit growth with deposit growth, targeting a Credit-to-Deposit (CD) ratio of around 85%. The bank also expects to maintain stable return ratios, with a ROA of around 1.5% and a ROE of approximately 12.6%.

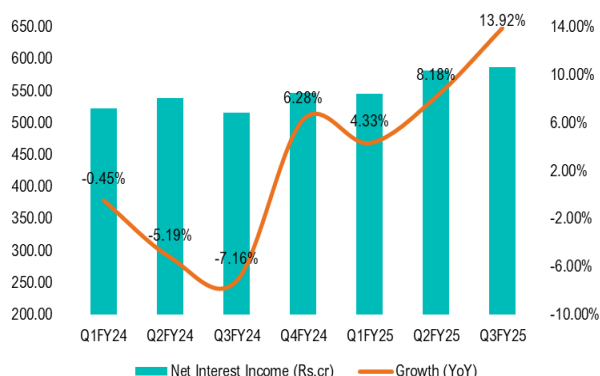
## Gross Advances



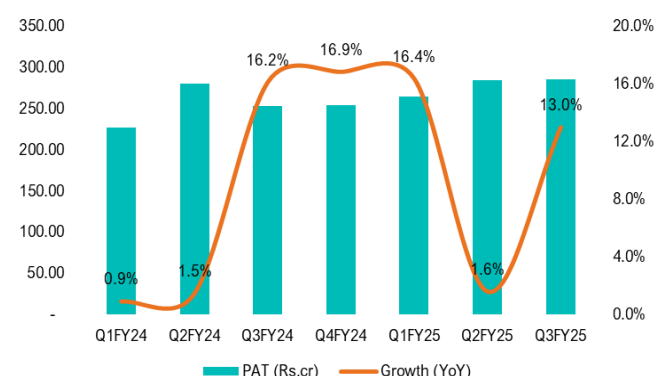
## Total Deposits



## Net Interest Income



## PAT



## Change in Estimates

Year / Rs cr	Old Estimates		New Estimates			Change(%)	
	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E
Net Interest Income (NII)	2,342	2,463	2,361	2,615	2,903	0.8	6.2
Net Interest Margin (%)	3.6	3.6	3.60	3.40	3.30	0bps	-20bps
Pre-Provision Profit	1,714	1,951	1,709	1,975	2,098	-0.3	1.2
Adj. PAT	1075	1,243	1072	1271	1333	-0.3	2.3
Diluted EPS (Rs)	14.4	16.7	14.4	17.0	17.9	0.0	1.8



## Standalone Financials

### Profit & Loss

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	4,714	5,271	5,862	6,583	7,373
Interest Expense	2,552	3,147	3,501	3,968	4,470
<b>Net Int. Income</b>	<b>2,163</b>	<b>2,123</b>	<b>2,361</b>	<b>2,615</b>	<b>2,903</b>
% Change	12.9%	-1.8%	11.2%	10.8%	11.0%
Non Int. Income	810	742	860	1,096	1,113
<b>Operating Income</b>	<b>2,973</b>	<b>2,865</b>	<b>3,221</b>	<b>3,711</b>	<b>4,016</b>
% Change	11.1%	-3.6%	12.4%	15.2%	8.2%
<b>Operating Exp.</b>	<b>1,155</b>	<b>1,348</b>	<b>1,512</b>	<b>1,735</b>	<b>1,918</b>
Pre Prov. Profit	1,818	1,517	1,709	1,975	2,098
Prov. & Conting.	641	286	279	281	321
<b>PBT</b>	<b>1,177</b>	<b>1,231</b>	<b>1,430</b>	<b>1,695</b>	<b>1,778</b>
% Change	19.5%	4.5%	16.2%	18.5%	4.9%
Tax	240	215	357	424	444
Tax Rate(%)	20%	26%	25%	25%	25%
<b>Net Profit</b>	<b>937</b>	<b>1,016</b>	<b>1,072</b>	<b>1,271</b>	<b>1,333</b>
Adj*	-	-	-	-	-
<b>Adj. Net Profit</b>	<b>937</b>	<b>1,016</b>	<b>1,072</b>	<b>1,271</b>	<b>1,333</b>
% Change	23.3%	8.3%	5.6%	18.5%	4.9%
No. of shares (cr)	74	74	74	74	74
<b>EPS (Rs)</b>	<b>12.6</b>	<b>13.6</b>	<b>14.4</b>	<b>17.0</b>	<b>17.9</b>
% Change	23.5%	8.3%	5.6%	18.5%	4.9%

### Ratios

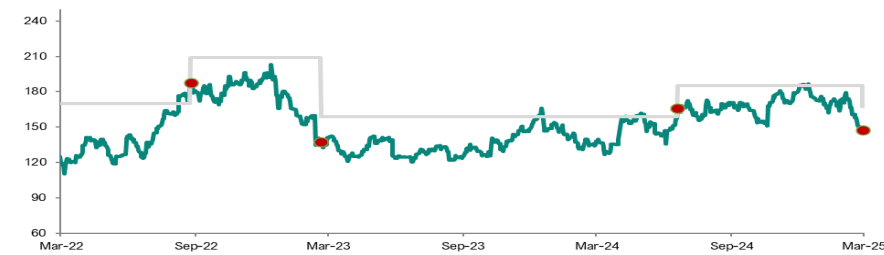
Y.E March	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Profitab. &amp; Return</b>					
Interest yield (%)	8.6	8.9	8.9	8.6	8.5
Cost of funds (%)	4.8	5.8	5.7	5.5	5.4
Spread(%)	3.8	3.1	3.1	3.2	3.1
NIM (%)	3.9	3.6	3.6	3.4	3.3
ROE (%)	13.4	12.8	12.1	12.8	12.0
ROA(%)	1.5	1.5	1.4	1.5	1.4
<b>Business Ratios</b>					
Loan growth (%)	6.7	5.7	14.9	14.7	13.8
Deposit growth (%)	9.9	6.2	12.2	14.1	14.7
<b>Operating Ratios</b>					
Cost to Income (%)	38.9	47.1	47.0	46.8	47.8
CASA (%)	31.5	31.3	29.6	29.1	30.6
<b>Asset Quality</b>					
GNPA (%)	4.4	4.0	3.2	3.3	3.2
NNPA (%)	2.4	2.0	1.8	1.7	1.7
<b>Capital Adequacy</b>					
CAR (%)	20.9	20.9	20.8	20.7	20.5
<b>Valuation</b>					
P/E (x)	11.8	10.9	10.3	8.7	8.3
P/B (x)	1.5	1.3	1.2	1.0	0.9
Adj. P/B (x)	1.7	1.5	1.3	1.2	1.0

### Balance Sheet

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	3,302	4,615	3,587	3,273	4,327
Loans & Advances	43,053	45,526	52,296	59,975	68,256
Investments	14,333	15,664	18,764	21,432	23,707
Net Fixed Assets	239	270	294	320	346
Other Assets	5,667	4,750	4,770	5,410	6,157
<b>Total Assets</b>	<b>66,595</b>	<b>70,826</b>	<b>79,711</b>	<b>90,410</b>	<b>102,793</b>
Deposits	52,398	55,657	62,461	71,247	81,710
Debt Funds	4,688	4,724	5,400	5,800	6,200
Other Liabilities and provision	2,051	2,044	2,487	2,841	3,140
Equity Capital	74	74	74	74	74
Reserves & Surplus	7,383	8,327	9,289	10,448	11,669
Shareholder's Funds	7,457	8,401	9,363	10,522	11,743
<b>Total Liabilities</b>	<b>66,595</b>	<b>70,826</b>	<b>79,711</b>	<b>90,410</b>	<b>102,793</b>
<b>BVPS (Rs)</b>	<b>101</b>	<b>113</b>	<b>126</b>	<b>142</b>	<b>159</b>
% Change	13%	13%	11%	12%	12%
<b>Adj. BVPS (Rs)</b>	<b>85</b>	<b>98</b>	<b>111</b>	<b>128</b>	<b>145</b>
% Change	17%	15%	13%	15%	13%



## Recommendation Summary (last 3 years)



Dates	Rating	Target
02.Jun.21	Buy	208
17.Nov.21	Buy	190
23.Feb.22	Buy	170
26.Aug.22	Accumulate	209
20.Feb.23	Accumulate	159
20.Jun.24	Accumulate	185
05.Mar.25	Accumulate	167

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

#### Symbols definition:

▲ Upgrade

● No Change

▼ Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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