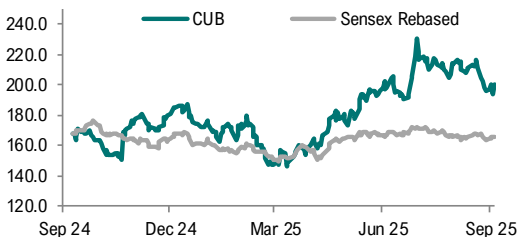


Sector: Banking

09th September, 2025**Accumulate**

<div>Key Changes:</div>						Target	Rs.231
	<div>Target</div>	<div></div>	<div>Rating</div>	<div></div>	<div>Earnings</div>		
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	CMP	Rs.198
Small Cap	CUBK:IN	80,787	CUB	532210	12 Months	Return	+17%

Data as of: 08-09-2025, 18:00 hrs

Company Data			
Market Cap (Rs. cr)	14,825		
52 Week High — Low (Rs.)	233-144		
Outstanding Shares (Rs cr)	74.1		
Free Float (%)	97.0		
Dividend Yield (%)	1.0		
6m average volume (million)	1.7		
Beta	1.2		
Face value (Rs.)	1.0		
Shareholding (%)	Q3FY25	Q4FY25	Q1FY26
Promoters	-	-	-
FII's	27.4	28	27.4
MFs/Institutions	33.6	33.1	35.2
Public	39.0	38.9	37.4
Total	100.0	100.0	100.0
Promoter Pledge	-	-	-
Price Performance	3 Month	6 Month	1 Year
Absolute Return	21.0%	30.8%	19.4%
Absolute Sensex	-0.9%	9.5%	-1.0%
Relative Return	21.9%	21.3%	20.4%
*over or under performance to benchmark index			
			
Y.E March (Rs.cr)	FY25A	FY26E	FY27E
NII	2,316	2,548	2,954
Growth(%)	9.1	10.1	15.9
NIM(%)	3.5	3.4	3.5
Provisions	262	256	254
Adj. PAT	1,124	1,241	1,452
Growth(%)	10.6	10.4	17.0
Adj. EPS	15.1	16.6	19.5
Growth(%)	10.6	10.4	17.0
BVPS	127.8	142.5	160.1
Adj BVPS	112.6	128.8	146.0
P/E	13.3	12.1	10.3
P/B	1.6	1.4	1.3
Adj. P/B	1.8	1.6	1.4
ROE(%)	12.6	12.4	13.0

Sailing Beyond Industry Trends...

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 876 branches spread across the country and a loan book size of Rs.54,020 cr.

- Gross advances grew 16.1% YoY, driven by strong momentum in the MSME segment. Deposits grew 19.8% YoY, while slower CASA growth (+10.8% YoY) drove the CASA ratio down 2.2% YoY to 27.3%.
- NII grew 14.7% YoY in Q1FY26, driven by strong advance growth. NIM remained stable at 3.5% on a YoY basis but moderated sequentially from 3.6%, reflecting the pass-through of RBI's rate cut benefits to borrowers.
- Asset quality strengthened further, with GNPA/NNPA improving to 3.0%/1.2% in Q1FY26 from 3.9%/1.9% in Q1FY25. The trend of lower slippages and higher recoveries is expected to be sustained through FY26.
- The Provision Coverage Ratio (PCR) increased from 73% in Q1FY25 to 79% in Q1FY26.
- The cost-to-income ratio improved to 48.1% compared to 49.3% in Q1FY26, with PAT growing by 16% YoY to Rs. 30.6 cr.

Outlook & Valuation

For the fourth quarter in a row, advances posted double-digit growth. The management expects loan growth to outpace the industry, with a strategic focus on expanding the MSME portfolio. They also anticipate maintaining asset quality, with slippages being offset by higher recoveries and upgrades. With credit costs expected to remain stable without compromising return metrics, **we assign an "Accumulate" rating to the stock, with a revised target price of Rs.231, based on 1.4x FY27E BVPS.**

Quarterly Financials (Standalone)

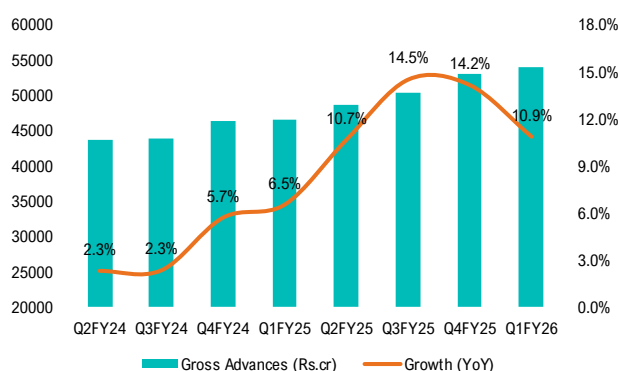
Rs cr	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Net Interest Income (NII)	625	545	14.7	600	4.2
Total Income	869	737	17.9	852	2.1
Expenditure	418	364	15.0	411	1.9
Pre-Provision Profit	451	373	20.7	441	2.3
Provision	70	39	79.5	78	-10.3
PBT	381	334	13.9	363	4.9
Reported PAT	306	264	15.7	288	6.2
Adjustment	-	-	-	-	-
Adj. PAT	306	264	15.7	288	6.2
Diluted EPS (Rs)	4.1	3.5	15.8	3.9	6.2



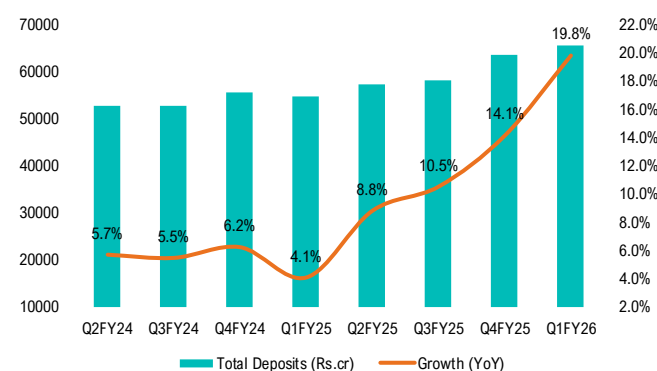
Key Highlights

- The bank achieved a milestone by crossing Rs. 300 cr in quarterly profit after tax for the first time. Credit growth stood at 16% YoY, marking the highest growth for the June quarter in the past decade. The bank has a total export exposure of approximately Rs. 1,000 to Rs. 1,200 cr, with only about 20% of that linked to the US market. Most borrowers in the textile sector have already diversified into European markets to mitigate risk. Discussions with seasoned exporters indicated that the impact of the new tariffs would likely result in a margin compression of around 2% to 3%, which the bank does not consider materially significant.
- The management confirmed that the bank has transmitted the full benefit of the 100 basis point repo rate cut to its customers. However, the overall reduction in yield has been limited due to earlier concessional pricing offered to certain borrowers and the composition of the loan book, which includes a significant portion of fixed-rate gold loans and MCLR-linked loans that are less sensitive to immediate rate changes.
- The Bank expects to maintain its NIM at approximately 3.5% for FY2026. Credit growth is projected to grow 2% to 3% above the industry average. The MSME segment continues to be the primary growth driver, supported by jewel loans and a steadily expanding retail portfolio that includes home loans and loans against property. The bank anticipates that deposit repricing in the second and third quarters will help offset the impact of lower lending rates.
- ROA is expected by management to remain above 1.5%, consistent with long-term averages. The cost-to-income ratio is guided to stay within 48% to 50%. On asset quality, the bank anticipates maintaining recoveries above slippages and expects the provision coverage ratio to improve modestly to around 63 to 64%. Credit cost is projected to be between 0.2% and 0.25%, reflecting the secured nature of the loan book and stable asset quality metrics.

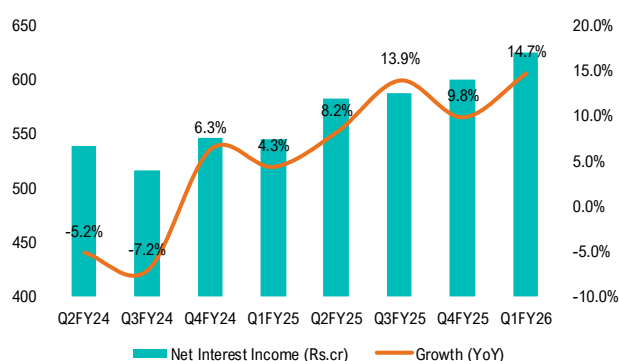
Gross Advances



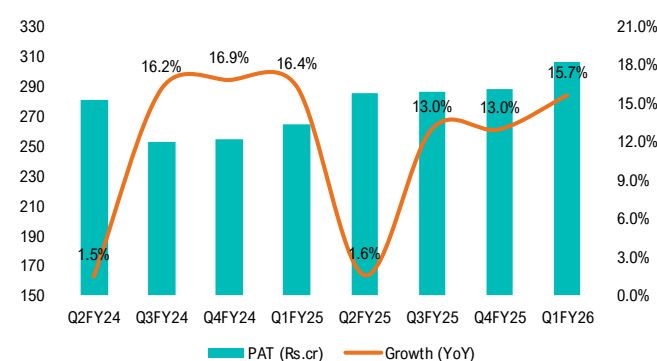
Total Deposits



Net Interest Income



PAT



Change in Estimates

Year / Rs cr	Old Estimates		New Estimates		Change(%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Net Interest Income (NII)	2,615	2,903	2,439	2,404	-6.7	-17.2
Net Interest Margin (%)	4.14	3.30	3.30	2.80	-84bps	-50bps
Pre-Provision Profit	2,268	2,098	1,804	1,822	-20.5	-13.2
Adj. PAT	1,255	1,333	1,232	1,299	-1.8	-2.6
Diluted EPS (Rs)	17.4	17.9	16.5	17.4	-5.2	-2.8



Standalone Financials

Profit & Loss

Y.E March (Rs cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Interest Income	4,714	5,271	5,834	6,462	7,282
Interest Expense	2,552	3,147	3,518	3,913	4,327
Net Int. Income	2,163	2,123	2,316	2,548	2,954
Change(%)	12.9	-1.8	9.1	10.1	15.9
Non Int. Income	810	742	898	1,009	1,074
Operating Income	2,973	2,865	3,214	3,558	4,028
Change(%)	11.1	-3.6	12.2	10.7	13.2
Operating Exp.	1,155	1,348	1,535	1,711	1,913
Pre Prov. Profit	1,818	1,517	1,679	1,847	2,115
Prov. & Conting.	641	286	262	256	254
PBT	1,177	1,231	1,417	1,590	1,861
Change(%)	-1337.8	4.5	15.1	12.3	17.0
Tax	240	215	293	350	409
Tax Rate(%)	20.4	17.5	20.7	20.7	20.7
Net Profit	937	1,016	1,124	1,241	1,452
Adj*	-	-	-	-	-
Adj. Net Profit	937	1,016	1,124	1,241	1,452
Change(%)	-392.8	8.3	10.6	10.4	17.0
No. of shares (cr)	74.0	74.1	74.1	74.1	74.1
EPS (Rs)	12.6	13.6	15.1	16.6	19.5
Change(%)	23.5	8.3	10.6	10.4	17.0
DPS (Rs)	12.9	-1.8	1.5	2.0	2.0

Balance Sheet

Y.E March (Rs cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash	3,302	4,615	3,875	4,242	4,922
Loans & Advances	43,053	45,526	52,081	59,333	67,488
Investments	14,333	15,664	17,336	19,937	22,130
Net Fixed Assets	239	270	322	349	375
Other Assets	5,667	4,750	4,009	5,340	5,534
Total Assets	66,595	70,826	77,623	89,199	100,449
Deposits	52,398	55,657	63,526	73,782	83,580
Borrowings	4,688	4,724	2,169	2,200	2,000
Other Liabilities	2,051	2,044	2,461	2,660	3,008
Equity Capital	74	74	74	74	74
Reserves & Surplus	7,383	8,327	9,393	10,484	11,786
Total Liabilities	66,595	70,826	77,623	89,199	100,449
BVPS (Rs)	100.7	113.4	127.8	142.5	160.1
Change(%)	13.1	12.6	12.6	11.5	12.3
Adj. BVPS (Rs)	85.0	98.2	112.6	128.8	146.0
Change(%)	16.6	15.5	14.7	14.4	13.4

Ratios

Y.E March	FY23A	FY24A	FY25A	FY26E	FY27E
Profitab. & Return					
Interest yield (%)	8.6	8.9	8.9	8.7	8.6
Cost of funds (%)	4.6	5.4	5.6	5.5	5.4
Spread(%)	3.9	3.5	3.4	3.2	3.3
NIM (%)	3.9	3.6	3.5	3.4	3.5
ROE (%)	13.4	12.8	12.6	12.4	13.0
ROA(%)	1.5	1.5	1.5	1.5	1.5
Business Ratios					
Loan growth (%)	6.7	5.7	14.4	13.9	13.7
Deposit growth (%)	9.9	6.2	14.1	16.1	13.3
Operating Ratios					
Cost to Income (%)	38.9	47.1	47.8	48.1	47.5
CASA (%)	31.5	31.3	29.2	29.1	30.6
Asset Quality					
GNPA (%)	4.4	4.0	3.1	3.0	2.8
NNPA (%)	2.3	1.9	1.2	1.1	1.0
Capital Adequacy					
CAR (%)	20.9	20.9	20.9	20.0	20.0
Valuation					
P/E (x)	15.8	14.6	13.2	12.0	10.2
P/B (x)	2.0	1.8	1.6	1.4	1.2
Adj. P/B (x)	2.3	2.0	1.8	1.5	1.4



Recommendation Summary (last 3 years)



Dates	Rating	Target
26.Aug.22	Accumulate	209
20.Feb.23	Accumulate	159
20.Jun.24	Accumulate	185
05.Mar.25	Accumulate	167
09.Sep.25	Accumulate	231

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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