

We hosted a call with City Union Bank's Credit Head, Mr Subramanian T R, and Head of IR, Mr Jayaraman, to discuss current growth and asset quality trends, along with any potential impact from the Middle East crisis. The management indicated that it is too early to observe any meaningful business disruption, however, if the conflict prolongs and leads to broader supply chain disruptions, there could be concerns around growth, margins, and asset quality for the industry, as well as for the bank—particularly in its textile and trader segment. However, the management highlighted its proven resilience during past disruptions (including recent US tariff-related issues) and expects to navigate the current situation in a similar manner. The government is also closely monitoring developments and may introduce support measures for MSMEs and lenders, if required. The bank has largely retained its strong credit growth guidance (~18-20%), led by MSME and secured retail loans (including gold loan and mortgage) for now, while expecting margins in the 3.8-3.9% range and RoA of over 1.5%. We retain our earnings estimates and TP of Rs350 (2x FY28E ABV), indicating strong upside following the recent correction, while remaining watchful of any sustained impact from the evolving Middle East situation.

#### Retains strong growth guidance, though we remain watchful of the evolving Middle East crisis

The bank has retained its credit growth guidance of 18-20% (3QFY26 at 21% YoY), with MSME and retail segments continuing to drive growth, while we would remain watchful of the evolving Middle East conflict. The impact of ongoing geopolitical tensions is not immediately visible; however, there are early signs of rising input and power costs for MSMEs, particularly in the textile and packing business. The bank has exposure of ~Rs50-60bn to the Tirupur textile belt and is closely engaging with its customers. As of now, borrowers have not approached the bank for any support such as term extensions. However, the cost of funds in short-term buckets has increased, and the bank does not plan to revise lending rates immediately. The management maintains its near-term margin guidance of 3.8-3.9%, however, we believe margins may come under pressure over the next 1-2 quarters for most banks, including CUBK, if funding costs remain elevated.

#### Asset quality improvement well on track

CUBK has seen steady improvement in asset quality with its GNPA ratio declining to 2.17% from a post-Covid peak of 5.6% in 1QFY22, while net slippages have turned negative. The bank has also steadily improved its specific PCR to 64% from a low of 35%, as part of its strategy to minimize the impact of the ECL transition. The management indicated that the SMA pool remains largely stable at ~4%, with no immediate risk. The management believes that government support could be forthcoming, if the situation worsens. However, it highlighted that SME borrowers did not seek any restructuring support despite the US trade disruption and expects they will be able to navigate the current crisis as well.

Target Price – 12M	Dec-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	49.6

Stock Data	CUBK IN
52-week High (Rs)	324
52-week Low (Rs)	143
Shares outstanding (mn)	743.0
Market-cap (Rs bn)	174
Market-cap (USD mn)	1,853
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	3.0
ADTV-3M (Rs mn)	669.9
ADTV-3M (USD mn)	7.1
Free float (%)	97.1
Nifty-50	22,512.7
INR/USD	94.0

#### Shareholding, Dec-25

Promoters (%)	0.0
FPIs/MFs (%)	23.5/40.2

#### Price Performance

(%)	1M	3M	12M
Absolute	(19.5)	(18.8)	46.4
Rel. to Nifty	(8.1)	(5.6)	51.8

#### 1-Year share price trend (Rs)



#### City Union Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	10,157	11,236	13,241	15,352	18,309
Loan growth (%)	5.7	14.4	20.7	20.2	20.1
NII growth (%)	(1.8)	9.1	22.4	20.0	23.1
NIM (%)	3.3	3.3	3.5	3.6	3.7
PPOP growth (%)	(16.6)	10.7	18.4	18.1	21.6
Adj. EPS (Rs)	13.7	15.2	17.9	20.7	24.7
Adj. EPS growth (%)	8.3	10.6	17.7	15.9	19.3
Adj. BV (INR)	104.4	121.2	138.7	157.3	179.2
Adj. BVPS growth (%)	15.4	16.1	14.4	13.4	13.9
RoA (%)	1.5	1.5	1.6	1.6	1.6
RoE (%)	12.8	12.6	13.2	13.6	14.3
P/E (x)	17.1	15.5	13.2	11.4	9.5
P/ABV (x)	2.3	1.9	1.7	1.5	1.3

Source: Company, Emkay Research

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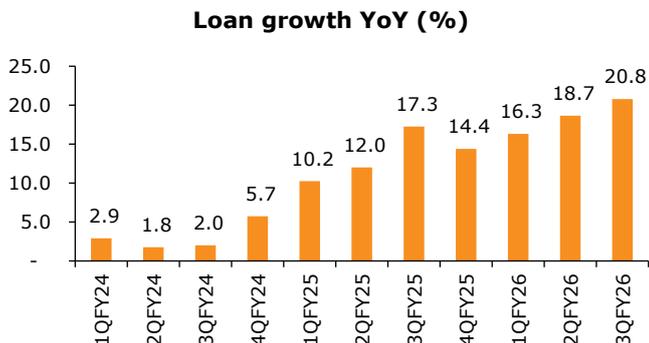
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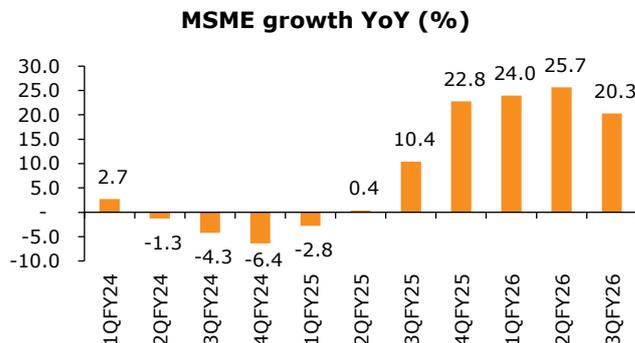
## Story in charts

**Exhibit 1: The bank's loan growth remains strong led by strong growth in the retail and MSME segment**



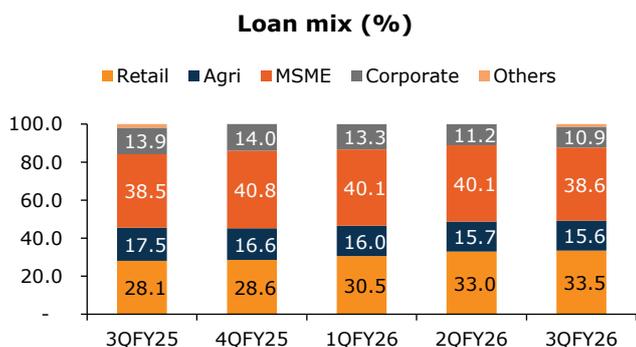
Source: Company, Emkay Research

**Exhibit 2: MSME loan growth remains strong**



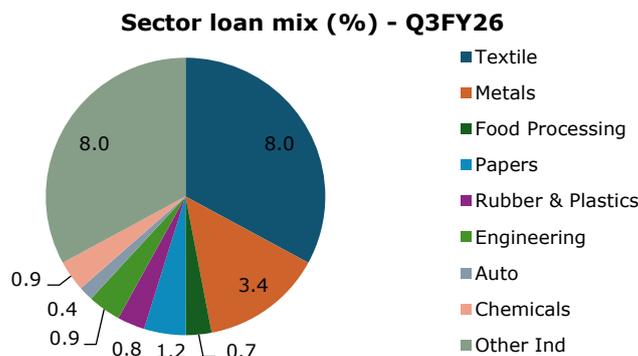
Source: Company, Emkay Research

**Exhibit 3: Strong retail growth is driving a sequential increase in the bank's retail share, while MSME share also remains higher QoQ**



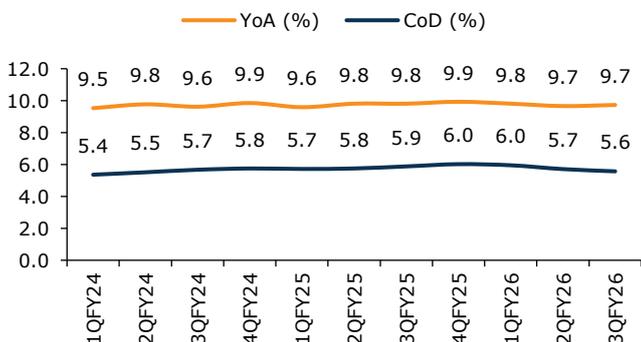
Source: Company, Emkay Research

**Exhibit 4: Textile remains the dominant sector for the bank**



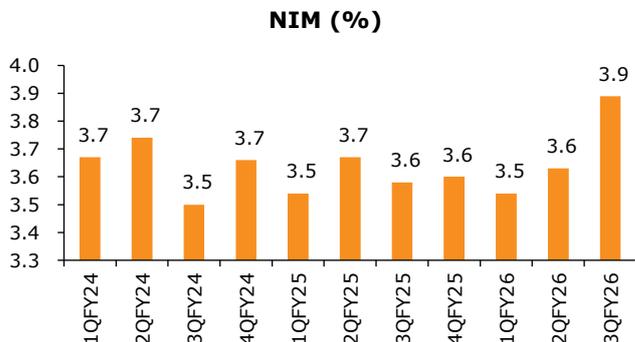
Source: Company, Emkay Research

**Exhibit 5: Stable yields along with moderation in CoD...**



Source: Company, Emkay Research

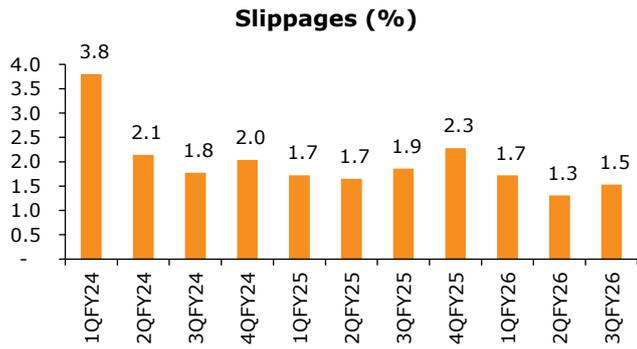
**Exhibit 6: ...led to better NIM while the mgmt. expects margin to remain at 3.8-3.9%**



Source: Company, Emkay Research

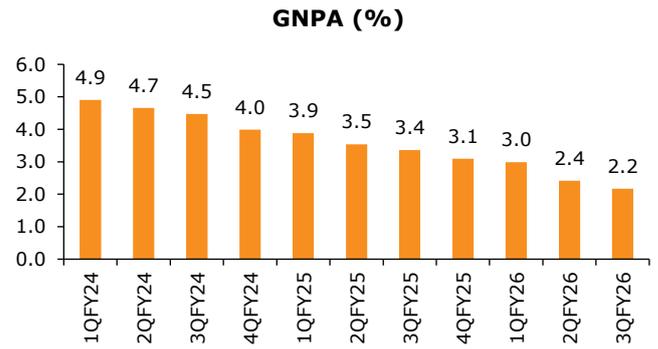
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Exhibit 7: Slippages remain contained in the range of 1.3-2%...



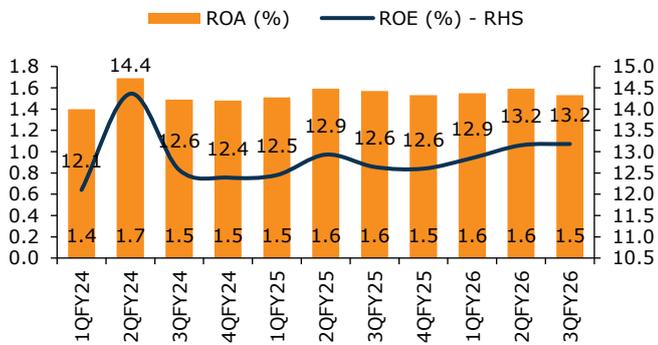
Source: Company, Emkay Research

Exhibit 8: ...coupled with better recoveries and higher write offs leading to sharp improvement in GNPA



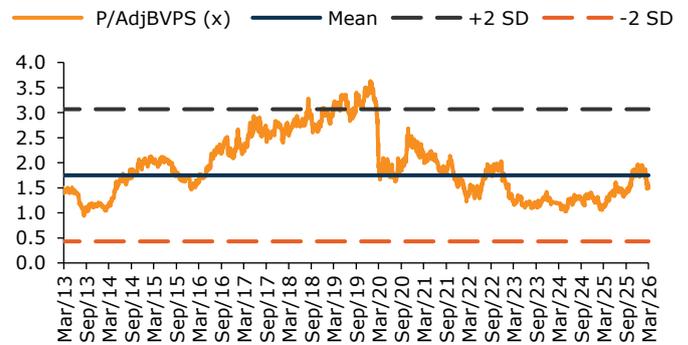
Source: Company, Emkay Research

Exhibit 9: Better NII, contained opex, and credit costs led to stable ROAs across quarters



Source: Company, Emkay Research

Exhibit 10: The bank is currently trading near its mean valuation



Source: Company, Emkay Research

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## City Union Bank: Standalone Financials and Valuations

## Profit &amp; Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	52,706	58,340	68,336	79,636	93,775
Interest Expense	31,471	35,183	39,985	45,618	51,903
<b>Net interest income</b>	<b>21,235</b>	<b>23,157</b>	<b>28,351</b>	<b>34,018</b>	<b>41,872</b>
NII growth (%)	(1.8)	9.1	22.4	20.0	23.1
Other income	7,416	8,981	10,077	10,834	11,535
<b>Total Income</b>	<b>28,651</b>	<b>32,138</b>	<b>38,428</b>	<b>44,852</b>	<b>53,406</b>
Operating expenses	13,484	15,351	18,560	21,383	24,861
<b>PPOP</b>	<b>15,167</b>	<b>16,786</b>	<b>19,869</b>	<b>23,469</b>	<b>28,546</b>
PPOP growth (%)	(16.6)	10.7	18.4	18.1	21.6
<b>Core PPOP</b>	<b>14,841</b>	<b>16,234</b>	<b>18,819</b>	<b>22,472</b>	<b>27,599</b>
Provisions & contingencies	2,860	2,620	3,150	3,913	4,922
<b>PBT</b>	<b>12,307</b>	<b>14,166</b>	<b>16,718</b>	<b>19,556</b>	<b>23,624</b>
Extraordinary items	0	0	0	0	0
Tax expense	2,150	2,930	3,477	4,205	5,315
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
<b>Reported PAT</b>	<b>10,157</b>	<b>11,236</b>	<b>13,241</b>	<b>15,352</b>	<b>18,309</b>
PAT growth (%)	8.3	10.6	17.8	15.9	19.3
<b>Adjusted PAT</b>	<b>10,157</b>	<b>11,236</b>	<b>13,241</b>	<b>15,352</b>	<b>18,309</b>
<b>Diluted EPS (Rs)</b>	<b>13.7</b>	<b>15.2</b>	<b>17.9</b>	<b>20.7</b>	<b>24.7</b>
Diluted EPS growth (%)	8.3	10.6	17.7	15.9	19.3
<b>DPS (Rs)</b>	<b>1.0</b>	<b>1.5</b>	<b>2.2</b>	<b>2.5</b>	<b>2.7</b>
<b>Dividend payout (%)</b>	<b>7.3</b>	<b>9.9</b>	<b>12.3</b>	<b>12.1</b>	<b>10.9</b>
Effective tax rate (%)	17.5	20.7	20.8	21.5	22.5
Net interest margins (%)	3.3	3.3	3.5	3.6	3.7
Cost-income ratio (%)	47.1	47.8	48.3	47.7	46.6
Shares outstanding (mn)	740.7	741.0	742.1	742.1	742.1

Source: Company, Emkay Research

## Asset quality and other metrics

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
<b>Asset quality</b>					
Gross NPLs	18,544	16,382	12,886	12,710	13,764
Net NPLs	8,986	6,531	4,510	4,067	4,129
GNPA ratio (%)	4.0	3.1	2.0	1.7	1.5
NNPA ratio (%)	2.0	1.3	0.7	0.5	0.5
Provision coverage (%)	51.5	60.1	65.0	68.0	70.0
Gross slippages	10,135	8,150	7,769	8,788	10,545
Gross slippage ratio (%)	2.3	1.8	1.2	1.2	1.2
LLP ratio (%)	0.5	0.5	0.5	0.6	0.6
NNPA to networth (%)	10.3	6.7	4.1	3.3	2.9
<b>Capital adequacy</b>					
Total CAR (%)	23.8	23.8	22.7	21.3	20.5
Tier-1 (%)	22.8	22.7	22.0	20.7	19.9
CET-1 (%)	22.8	22.7	22.0	20.7	19.9
RWA-to-Total Assets (%)	50.4	51.0	52.0	53.0	53.0
<b>Miscellaneous</b>					
Total income growth (%)	8.8	12.0	16.5	15.4	16.4
Opex growth (%)	16.7	13.9	20.9	15.2	16.3
Core PPOP growth (%)	(18.0)	9.4	15.9	19.4	22.8
PPOP margin (%)	25.2	24.9	25.3	25.9	27.1
PAT/PPOP (%)	67.0	66.9	66.6	65.4	64.1
LLP-to-Core PPOP (%)	19.3	16.1	16.7	17.4	17.8
Yield on advances (%)	9.6	9.7	9.8	9.6	9.4
Cost of funds (%)	5.4	5.6	5.6	5.4	5.2

Source: Company, Emkay Research

## Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	741	741	742	742	742
Reserves & surplus	83,274	93,925	105,533	119,030	135,335
<b>Net worth</b>	<b>84,014</b>	<b>94,666</b>	<b>106,275</b>	<b>119,772</b>	<b>136,077</b>
Deposits	556,567	635,260	750,215	891,469	1,069,927
Borrowings	47,242	21,694	20,609	19,579	21,537
<b>Interest bearing liab.</b>	<b>603,808</b>	<b>656,954</b>	<b>770,825</b>	<b>911,048</b>	<b>1,091,464</b>
<b>Other liabilities &amp; prov.</b>	<b>20,436</b>	<b>24,612</b>	<b>29,184</b>	<b>36,631</b>	<b>34,996</b>
<b>Total liabilities &amp; equity</b>	<b>708,259</b>	<b>776,232</b>	<b>906,284</b>	<b>1,067,450</b>	<b>1,262,537</b>
Net advances	455,257	520,813	628,421	755,513	907,352
Investments	156,641	173,361	182,800	213,584	252,919
Cash, other balances	69,435	52,905	61,666	63,773	65,488
<b>Interest earning assets</b>	<b>681,333</b>	<b>747,079</b>	<b>872,887</b>	<b>1,032,870</b>	<b>1,225,758</b>
Fixed assets	2,704	3,223	3,708	4,306	4,834
Other assets	24,221	25,929	29,689	30,274	31,945
<b>Total assets</b>	<b>708,259</b>	<b>776,232</b>	<b>906,284</b>	<b>1,067,450</b>	<b>1,262,537</b>
BVPS (Rs)	113.4	127.8	143.2	161.4	183.4
Adj. BVPS (INR)	104.4	121.2	138.7	157.3	179.2
Gross advances	464,814	530,664	636,796	764,156	916,987
Credit to deposit (%)	81.8	82.0	83.8	84.7	84.8
CASA ratio (%)	30.6	28.5	27.4	27.3	27.9
Cost of deposits (%)	5.4	5.5	5.5	5.4	5.1
Loans-to-Assets (%)	64.3	67.1	69.3	70.8	71.9
Net advances growth (%)	5.7	14.4	20.7	20.2	20.1
Deposit growth (%)	6.2	14.1	18.1	18.8	20.0
Book value growth (%)	12.6	12.6	12.1	12.7	13.6

Source: Company, Emkay Research

## Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	17.1	15.5	13.2	11.4	9.5
P/B (x)	2.1	1.8	1.6	1.5	1.3
P/ABV (x)	2.3	1.9	1.7	1.5	1.3
P/PPOP (x)	11.5	10.4	8.8	7.4	6.1
Dividend yield (%)	0.4	0.6	0.9	1.1	1.2
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.1	3.1	3.4	3.4	3.6
Other income	1.1	1.2	1.2	1.1	1.0
Fee income	1.0	1.1	1.1	1.0	0.9
Opex	2.0	2.1	2.2	2.2	2.1
<b>PPOP</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>
Core PPOP	2.2	2.2	2.2	2.3	2.4
Provisions	0.4	0.4	0.4	0.4	0.4
Tax expense	0.3	0.4	0.4	0.4	0.5
<b>RoA (%)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
Leverage ratio (x)	8.7	8.3	8.4	8.7	9.1
<b>RoE (%)</b>	<b>12.8</b>	<b>12.6</b>	<b>13.2</b>	<b>13.6</b>	<b>14.3</b>

## Quarterly data

Rs mn	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
NII	5,877	6,003	6,253	6,665	7,522
NIM (%)	3.6	3.6	3.5	3.6	3.9
PPOP	4,360	4,410	4,509	4,706	5,132
PAT	2,860	2,880	3,059	3,286	3,322
EPS (Rs)	15.4	15.5	16.5	17.7	17.9

Source: Company, Emkay Research

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**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
02-Feb-26	285	350	Buy	Anand Dama
07-Jan-26	291	350	Buy	Anand Dama
03-Nov-25	236	270	Buy	Anand Dama
01-Aug-25	214	250	Buy	Anand Dama
02-May-25	173	210	Buy	Anand Dama
09-Apr-25	160	210	Add	Anand Dama
01-Feb-25	171	210	Add	Anand Dama
09-Dec-24	186	195	Add	Anand Dama
22-Oct-24	169	170	Add	Anand Dama
27-May-24	145	160	Reduce	Anand Dama
21-May-24	145	150	Reduce	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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