

## City Union Bank

*Strong performance, growth and margin surprise positively; retain BUY*

Rating: **BUY**

Target Price (12-mth): Rs.355

Share Price: Rs.271

City Union Bank delivered a strong performance in Q4FY26, with balance sheet growth sustaining above system (loans up 26.5% y/y and deposits up 23.3% y/y), stable NIM and healthy asset quality (net slippages ~30bps). Credit growth acceleration was led by gold loans, while the loan growth (ex-gold) stood at ~16% y/y, broadly in-line with the system. Stable margin, strong fee income and controlled opex drove 32.8% y/y growth in core operating profit. Growth visibility remains healthy with the management guiding for ~200/300bps higher-than-system loan growth, supported by steady momentum across the bank's core MSME book. With stable margin, healthy fee momentum and benign asset quality, we expect earnings to remain steady over the medium-term, with RoA likely to sustain above 1.5% over FY27/28e. We maintain BUY rating on City Union Bank with a 12-month TP of Rs355, valuing the stock at 2x FY28e P/ABV.

**Balance sheet momentum accelerates; CASA strengthens:** Credit growth was up 26.5% y/y (vs. 20.8% in Q3FY26), led by strong traction in gold loans (up ~36.7% y/y). Gold loans (including agri gold) now constitute ~29% of overall book, with the management indicating ~30% as the broad operating upper threshold. On liability side, deposit momentum remained strong with 23.3% y/y growth. Sequentially, LDR improved by 223bps to 84.1%, while CASA ratio strengthened by 36bps to 27.6%. For FY27, the management sees credit growth at ~200-300bps above the system, while the deposit growth is expected to broadly track loan growth.

**Core profitability remains strong:** NIM remained broadly stable at 3.87% (down 2bps q/q), despite 223bps improvement in LDR, as yield expansion outpaced the increase in CoF. We expect margin to sustain near the current levels, with any yield pressure likely to be offset by easing funding cost. Fee income saw strong traction (16.5% y/y and 12.9% q/q), while opex growth remained below balance sheet growth. Stable NIM, healthy fee momentum and controlled opex drove 32.8% y/y growth in core operating profit. Going ahead, we believe stable margin, controlled opex and moderate credit cost would support profitability, with RoA expected to sustain above 1.5% over FY27/28e.

**Asset quality remains strong:** Asset quality remained healthy with gross slippages coming in at 131bps (vs. 136bps in Q3FY26), while net slippages stood at 30bps. Standard restructured book increased 5% q/q to Rs5.1bn, at 0.78% of loans.

**Outlook and Valuation:** At CMP, the stock trades at 1.5x FY28e P/ABV. We maintain BUY rating on the stock with a TP of Rs355, valuing it at 2x FY28e P/ABV.

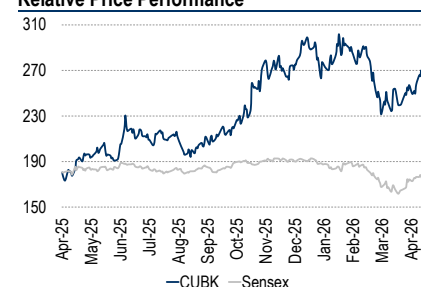
**Key Risks:** (a) Higher-than-expected slippages; and (b) lower-than-expected loan growth.

Key Data	CUBK IN / CTBK.BO
52-week high / low	Rs324 / 172
Sensex / Nifty	77304 / 24093
Market cap	Rs206bn
Shares outstanding	743m

Shareholding Pattern (%)	Mar'26	Dec'25	Sep'25
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100.0	100.0	100.0
- Foreign institutions	23.4	23.5	26.0
- Domestic institutions	40.7	40.2	36.8
- Public	35.9	36.3	37.3

Estimates Revision (%)	FY27e	FY28e
NII	3.1	2.9
PPoP	4.0	3.1
PAT	4.3	4.3

### Relative Price Performance



Source: Bloomberg

**Yuvraj Choudhary, CFA**

Research Analyst

**Sagar Rungta**

Research Associate

**Subhanshi Rathi**

Research Associate

## Quick Glance – Financials and Valuations

**Fig 1 – Income Statement (Rs m)**

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Net interest income	21,235	23,157	28,298	34,190	39,770
<i>NII growth (%)</i>	-1.8	9.1	22.2	20.8	16.3
Non-interest income	7,417	8,981	10,388	11,791	13,382
Income	28,651	32,138	38,687	45,980	53,152
<i>Income growth (%)</i>	-3.6	12.2	20.4	18.9	15.6
Operating expenses	13,484	15,351	18,544	21,960	25,391
PPoP	15,167	16,786	20,142	24,020	27,761
<i>PPoP growth (%)</i>	-16.6	10.7	20.0	19.3	15.6
Provisions	2,860	2,620	3,430	4,380	5,168
PBT	12,307	14,166	16,712	19,640	22,592
Tax	2,150	2,930	3,450	4,321	4,970
PAT	10,157	11,236	13,262	15,319	17,622
<i>PAT growth (%)</i>	8.3	10.6	18.0	15.5	15.0
EPS (Rs)	13.7	15.2	17.8	20.6	23.7
DPS (Rs)	1.5	2.0	2.0	2.1	2.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance Sheet (Rs m)**

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	741	741	743	743	743
Reserves & surplus	83,274	93,925	104,906	118,693	134,553
Deposits	556,566	635,260	783,080	912,288	1,067,377
Borrowings	47,242	21,694	53,268	58,595	64,454
Other liabilities	20,436	24,612	28,248	30,892	29,893
<b>Total liabilities</b>	<b>708,259</b>	<b>776,232</b>	<b>970,244</b>	<b>1,121,211</b>	<b>1,297,019</b>
Advances	455,257	520,813	658,752	777,327	917,246
Investments	156,641	173,361	189,869	212,654	238,172
Cash & bank balance	69,435	52,905	89,271	95,966	103,163
Fixed & other assets	26,925	29,153	32,352	35,264	38,438
<b>Total assets</b>	<b>708,259</b>	<b>776,232</b>	<b>970,244</b>	<b>1,121,211</b>	<b>1,297,019</b>
No. of shares (m)	741	741	743	743	743
<i>Deposits growth (%)</i>	6.2	14.1	23.3	16.5	17.0
<i>Advances growth (%)</i>	5.7	14.4	26.5	18.0	18.0

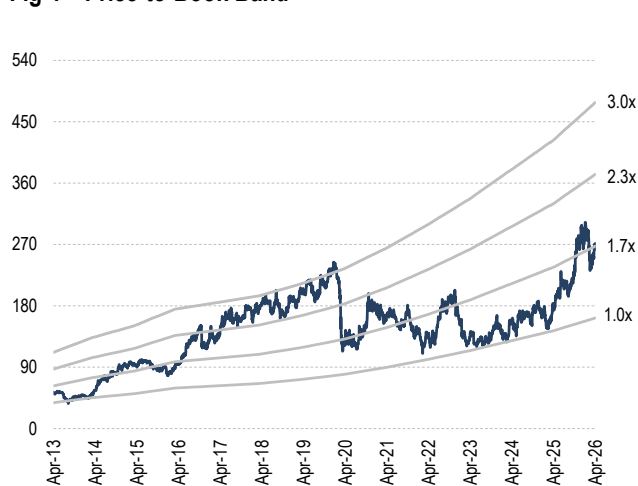
Source: Company, Anand Rathi Research

**Fig 3 – Ratio Analysis (%)**

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
NIM	3.4	3.4	3.6	3.6	3.6
Cost-income	47.1	47.8	47.9	47.8	47.8
RoA	1.5	1.5	1.5	1.5	1.5
RoE	12.8	12.6	13.2	13.6	13.8
DPS	1.5	2.0	2.0	2.1	2.4
LDR	81.8	82.0	84.1	85.2	85.9
Gross NPA	4.0	3.1	1.9	1.8	1.9
Net NPA	2.0	1.3	0.7	0.6	0.7
PCR	51.5	60.1	64.7	65.0	65.0
BV (₹)	113.4	127.8	142.2	160.7	182.1
CAR (%)	23.7	23.8	21.9	20.9	20.0
- Tier 1	22.7	22.7	20.8	20.0	19.2
P / E (x)	19.8	17.9	15.2	13.2	11.4
P / BV (x)	2.4	2.1	1.9	1.7	1.5
P / ABV (x)	2.6	2.2	2.0	1.7	1.5

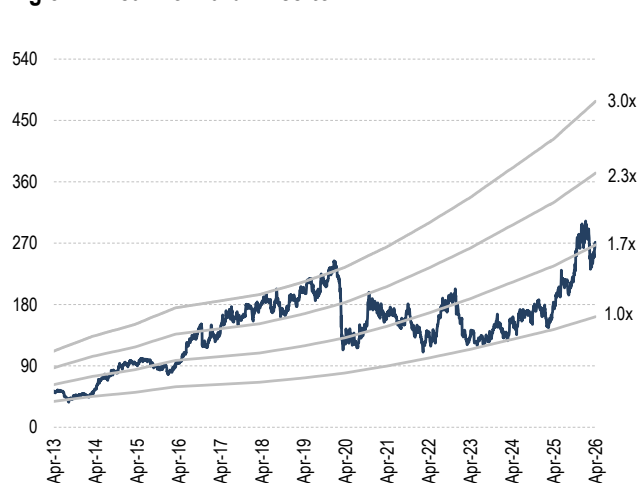
Source: Company, Anand Rathi Research

**Fig 4 – Price-to-Book Band**



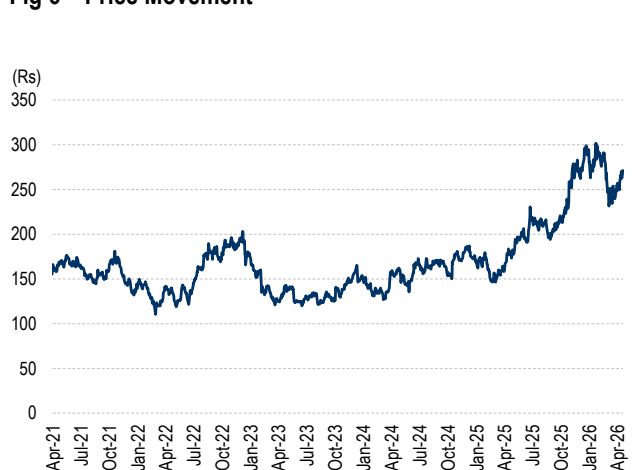
Source: Bloomberg

**Fig 5 – 1-Year Forward Price-to-BV**



Source: Bloomberg

**Fig 6 – Price Movement**



Source: Bloomberg

## Key Highlights

### Quarterly Snapshot

Fig 7 – Income Statement

Y/E Mar (Rs m)	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26
Interest income	14,787	15,327	16,053	16,531	17,557	18,556
Interest expense	8,910	9,324	9,800	9,866	10,035	10,698
<b>NII</b>	<b>5,877</b>	<b>6,003</b>	<b>6,253</b>	<b>6,665</b>	<b>7,522</b>	<b>7,858</b>
<i>y/y growth (%)</i>	13.9	9.8	14.7	14.4	28.0	30.9
Non-interest income	2,284	2,512	2,439	2,591	2,453	2,905
<b>Total income</b>	<b>8,161</b>	<b>8,515</b>	<b>8,692</b>	<b>9,257</b>	<b>9,975</b>	<b>10,763</b>
<i>y/y growth (%)</i>	15.1	18.0	17.9	14.4	22.2	26.4
Operating expenses	1,785	1,965	2,006	2,244	2,302	2,346
of which, staff cost	2,016	2,140	2,176	2,307	2,541	2,621
<b>PPoP</b>	<b>4,360</b>	<b>4,410</b>	<b>4,509</b>	<b>4,706</b>	<b>5,132</b>	<b>5,796</b>
<i>y/y growth (%)</i>	19.8	25.4	20.7	9.9	17.7	31.4
Total provisions	750	780	700	570	960	1,200
<b>PBT</b>	<b>3,610</b>	<b>3,630</b>	<b>3,809</b>	<b>4,136</b>	<b>4,172</b>	<b>4,596</b>
Tax	750	750	750	850	850	1,000
<b>PAT</b>	<b>2,860</b>	<b>2,880</b>	<b>3,059</b>	<b>3,286</b>	<b>3,322</b>	<b>3,596</b>
<i>y/y growth (%)</i>	13.0	13.0	15.7	15.2	16.1	24.9

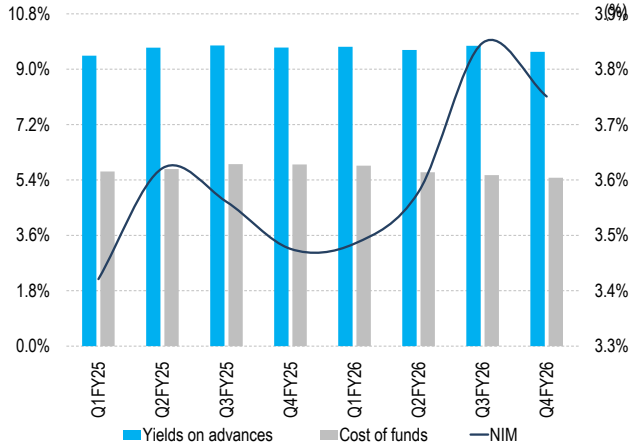
Source: Company, Anand Rathi Research

Fig 8 – Balance Sheet

Y/E Mar (Rs m)	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26
Equity capital	741	741	741	741	741	743
Reserves & Surplus	90,918	93,925	96,984	98,519	101,841	104,906
Deposits	582,713	635,260	657,340	694,860	705,159	783,080
Borrowings	23,580	21,694	22,637	21,827	22,232	53,268
Other Liabilities	-	24,612	-	28,076	-	28,248
<b>Total Liabilities</b>	<b>-</b>	<b>776,232</b>	<b>-</b>	<b>844,024</b>	<b>-</b>	<b>970,244</b>
<i>y/y deposits growth (%)</i>	10.5	14.1	19.8	21.1	21.0	23.3
<i>q/q deposits growth (%)</i>	1.6	9.0	3.5	5.7	1.5	11.1
Cash and cash balances	9,509	52,905	11,835	69,529	16,443	89,271
Advances	504,093	520,813	540,200	566,809	608,920	658,752
Investments	159,855	173,361	174,958	175,187	175,577	189,869
Other Assets	-	29,153	-	32,499	-	32,352
<b>Total Assets</b>	<b>-</b>	<b>776,232</b>	<b>-</b>	<b>844,024</b>	<b>-</b>	<b>970,244</b>
<i>y/y advances growth (%)</i>	14.5	14.4	16.1	18.7	20.8	26.5
<i>q/q advances growth (%)</i>	5.5	3.3	3.7	4.9	7.4	8.2

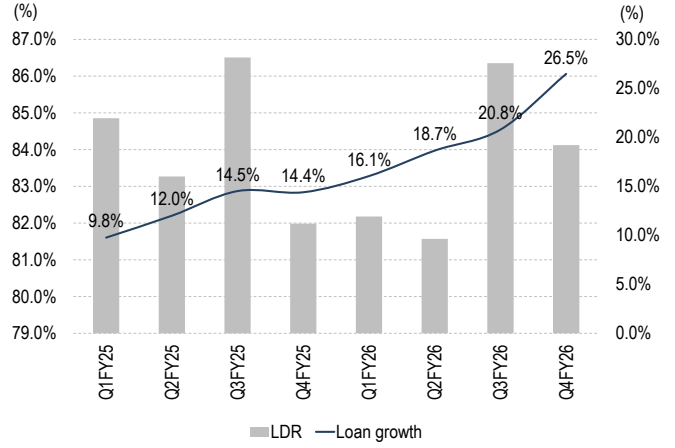
Source: Company, Anand Rathi Research

**Fig 9 – Yield, Cost and Margin**



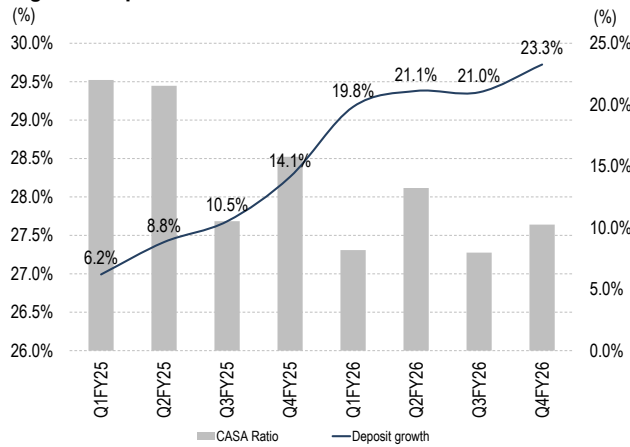
Source: Company, Anand Rathi Research

**Fig 10 – Credit Growth vs. LDR**



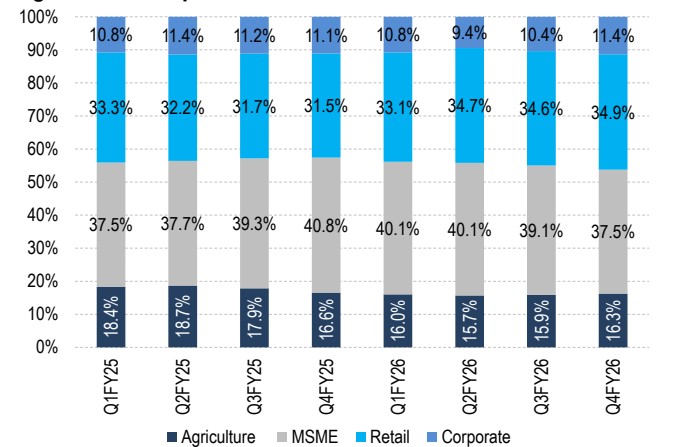
Source: Company, Anand Rathi Research

**Fig 11 – Deposit Growth vs. CASA Ratio**



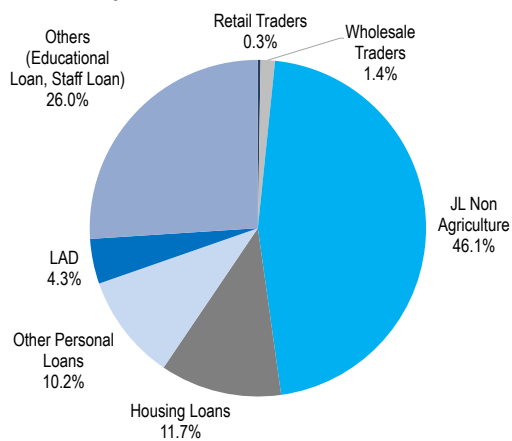
Source: Company, Anand Rathi Research

**Fig 12 – Break-up of Loans**



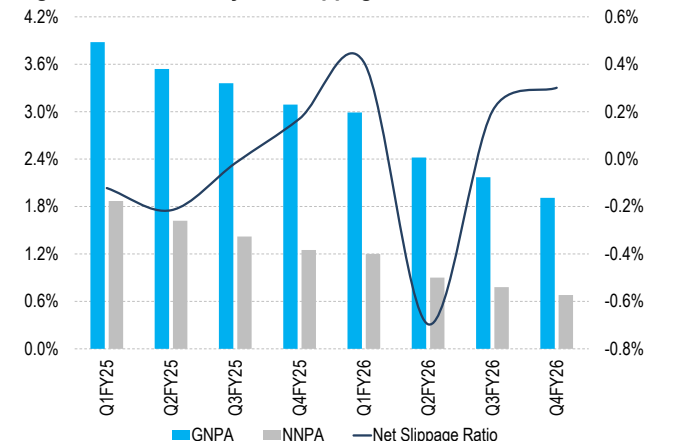
Source: Company, Anand Rathi Research

**Fig 13 – Break-up of Retail Loans**



Source: Company, Anand Rathi Research

**Fig 14 – Asset Quality and Slippage Trends**



Source: Company, Anand Rathi Research

## Outlook and Valuations

We maintain BUY rating on the stock with a TP of Rs355, valuing it at 2x FY28e P/ABV.

**Fig 15 – Change in Estimates**

(Rs m)	FY27e			FY28e		
	New	Old	Change (%)	New	Old	Change (%)
NII	34,190	33,168	3.1	39,770	38,647	2.9
PPoP	24,020	23,090	4.0	27,761	26,934	3.1
PAT	15,319	14,688	4.3	17,622	16,899	4.3

Source: Anand Rathi Research

### Risks

- Higher-than-expected slippages could put our estimates at risk.
- Less-than-anticipated loan growth could upset our estimates.

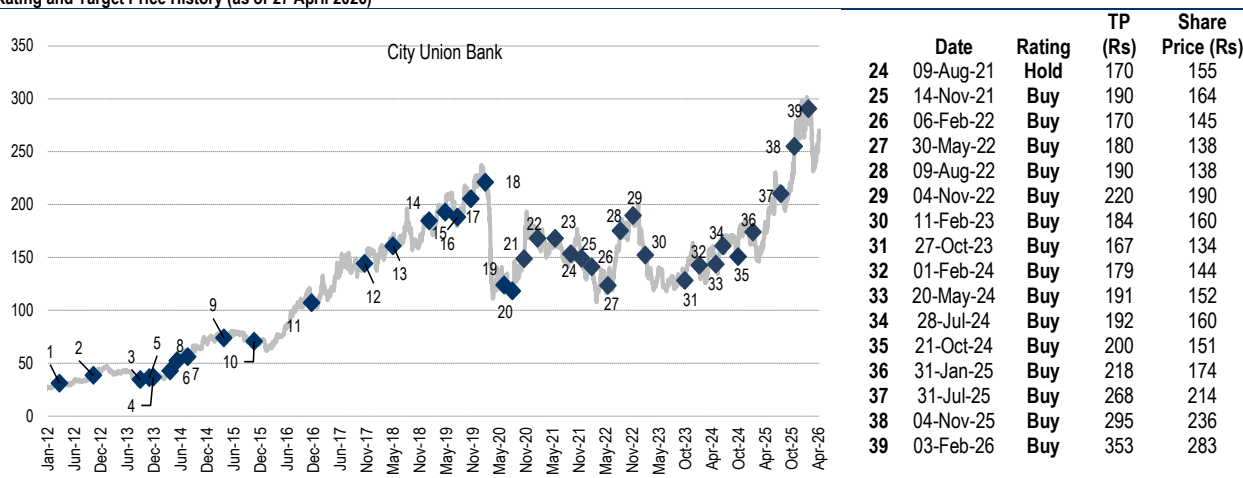
## Appendix

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**Grievance officer:** Madhu Jain, email id: [grievance@rathi.com](mailto:grievance@rathi.com), Contact no. +91 22 6281 7191

**ARSSBL registered address:** Express Zone, A Wing, 10th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.  
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.