ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

29 July 2026

City Union Bank

Strong show continues, RoA expected to remain above 1.5%; retain BUY

Rating: **BUY**
Target Price (12-mth): Rs.298
Share Price: Rs.238

City Union Bank delivered a strong performance for yet another quarter in Q1FY27. While its balance sheet growth continued to outpace the system (loans up 26.1% y/y and deposits up 20.7% y/y), NII/PPoP/PAT grew faster than the balance sheet on y/y basis. Credit growth was led by gold loans, while core loan growth (ex-gold) remained healthy at ~20.5% y/y, comfortably ahead of the system. Looking ahead, we believe the bank would continue to deliver credit growth 200-250bps above the system, supported by sustained momentum across its core MSME franchise and gold loan portfolio. Coupled with stable operating performance and benign asset quality, we expect the bank's earnings to remain resilient, with RoA sustaining above 1.5% over FY27-28e. Thus, we maintain BUY rating on City Union Bank with a 12-month TP of Rs298, valuing the stock at 2.2x FY28e P/ABV.

Strong balance sheet momentum continues: Credit growth was stable (up 26.1% y/y in Q1FY27 vs. 26.1% in Q4FY26), led by strong traction in gold loans (up ~37.6% y/y). Gold loans (including agri gold) now account for ~31% of the bank's loan book. Looking ahead, the management expects mix to remain in 31-32% range. Further, liability momentum remained healthy, with deposits rising by 20.7% y/y along with 17.5% y/y growth in CASA, outperforming both the system and peers. We expect the bank to continue delivering credit growth 200-250bps ahead of the system over the medium-term.

RoA to remain above 1.5%: NIM declined by 9bps q/q to 3.78%, driven by 14bps increase in cost of fund, largely due to higher borrowings. Expecting deposit costs to remain elevated over the next few quarters, the management maintained its 3.65-3.7% NIM guidance for the medium term. Fee income increased by 14.4% y/y, trailing balance sheet growth, while the management expects an improvement in the second half of the fiscal. Opex growth remained below balance sheet growth with opex/assets improving by 24bps q/q to 1.98%. We expect the bank's operating performance to remain stable, while moderate credit cost would support its profitability, with RoA sustaining above 1.5% over FY27-28e.

Improvement in asset quality: The bank's asset quality strengthened with gross slippages declining to 118bps in Q1FY27 (from 131bps in Q4FY26 and 151bps in Q1FY26), while net slippages moderated to 8bps (from 30bps in Q4FY26 and 41bps in Q1FY26). The bank's overall SMA book also witnessed a sharp improvement to 2.85% in Q1FY27 from 7.1% in Q1FY26. Looking ahead, the management expects gross slippages to remain in 1.2-1.3% range, while the medium-term credit cost is seen at ~40bps.

Valuation: We expect the bank's earnings to remain resilient over FY27-28e, with RoA sustaining above 1.5%. At CMP, the stock trades at 1.7x FY28e P/ABV. We maintain BUY rating on the stock with a TP of Rs298, valuing it at 2.2x FY28e P/ABV.

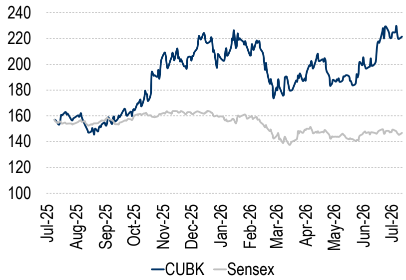
Key Risks: (a)Higher-than-expected slippages; and (b) lower-than-expected loan growth.

Key Data	CUBK IN / CTBK.BO
52-week high / low	Rs245 / 145
Sensex / Nifty	76766 / 23985
Market cap	Rs219bn
Shares outstanding	991m

Shareholding Pattern (%)	Jun'26	Mar'26	Dec'25
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100.0	100.0	100.0
- Foreign institutions	18.7	23.4	23.5
- Domestic institutions	44.8	40.7	40.2
- Public	36.5	35.9	36.3

Estimates Revision (%)	FY27e	FY28e
NII	0.3	0.3
PPoP	0.4	0.4
PAT	1.6	1.2

Relative Price Performance



Source: Bloomberg

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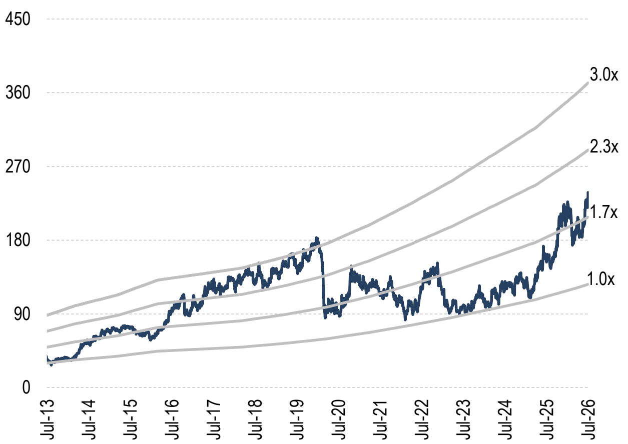
Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Net interest income	21,235	23,157	28,298	34,280	39,875
NII growth (%)	-1.8	9.1	22.2	21.1	16.3
Non-interest income	7,417	8,981	10,388	11,791	13,382
Income	28,651	32,138	38,687	46,071	53,257
Income growth (%)	-3.6	12.2	20.4	19.1	15.6
Operating expenses	13,484	15,351	18,544	21,960	25,391
PPoP	15,167	16,786	20,142	24,110	27,866
PPoP growth (%)	-16.6	10.7	20.0	19.7	15.6
Provisions	2,860	2,620	3,430	4,165	4,999
PBT	12,307	14,166	16,712	19,946	22,867
Tax	2,150	2,930	3,450	4,388	5,031
PAT	10,157	11,236	13,262	15,558	17,836
PAT growth (%)	8.3	10.6	18.0	17.3	14.6
EPS (Rs)	13.7	15.2	17.8	15.7	18.0
DPS (Rs)	1.5	2.0	2.0	1.6	1.8

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book Band



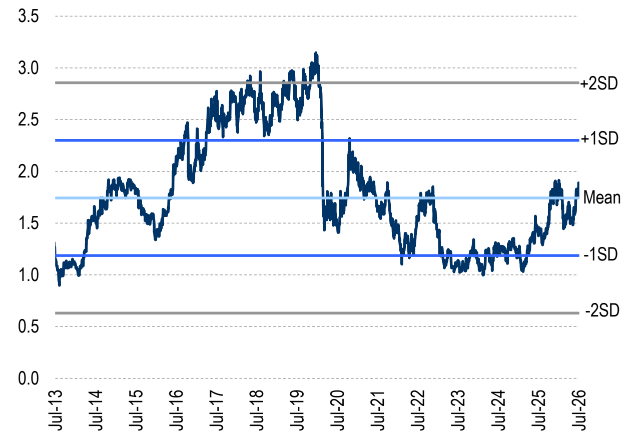
Source: Bloomberg

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	741	741	743	991	991
Reserves & surplus	83,274	93,925	1,04,906	1,18,908	1,34,960
Deposits	5,56,566	6,35,260	7,83,080	9,12,288	10,67,377
Borrowings	47,242	21,694	53,268	58,595	64,454
Other liabilities	20,436	24,612	28,248	30,430	29,237
Total liabilities	**7,08,259**	**7,76,232**	**9,70,244**	**11,21,211**	**12,97,019**
Advances	4,55,257	5,20,813	6,58,752	7,77,327	9,17,246
Investments	1,56,641	1,73,361	1,89,869	2,12,654	2,38,172
Cash & bank balance	69,435	52,905	89,271	95,966	1,03,163
Fixed & other assets	26,925	29,153	32,352	35,264	38,438
Total assets	**7,08,259**	**7,76,232**	**9,70,244**	**11,21,211**	**12,97,019**
No. of shares (m)	741	741	743	991	991
Deposits growth (%)	6.2	14.1	23.3	16.5	17.0
Advances growth (%)	5.7	14.4	26.5	18.0	18.0

Source: Company, Anand Rathi Research

Fig 5 – 1-Year Forward Price-to-BV



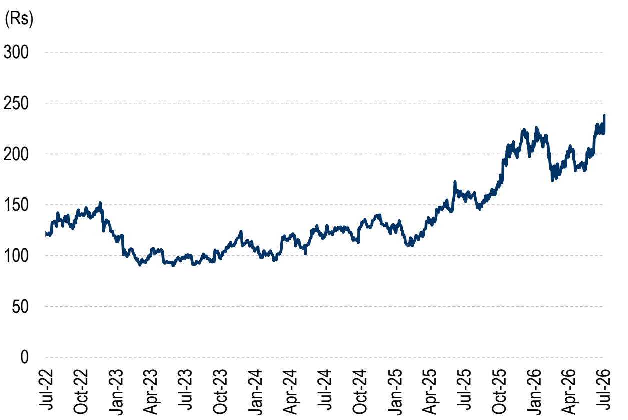
Source: Bloomberg

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	47.7	47.7
RoA	1.5	1.5	1.5	1.5	1.5
RoE	12.8	12.6	13.2	13.8	13.9
DPS	1.5	2.0	2.0	1.6	1.8
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	121.0	137.2
CAR (%)	23.7	23.8	21.9	20.3	19.5
- Tier 1	22.7	22.7	20.8	19.4	18.7
P / E (x)	17.4	15.7	13.3	15.2	13.2
P / BV (x)	2.1	1.9	1.7	2.0	1.7
P / ABV (x)	2.3	2.0	1.7	2.0	1.8

Source: Company, Anand Rathi Research

Fig 6 – Price Movement



Source: Bloomberg

Key Highlights

Quarterly Snapshot

Fig 7 – Income Statement

Y/E Mar (Rs m)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Interest income	15,327	16,053	16,531	17,557	18,556	19,850
Interest expense	9,324	9,800	9,866	10,035	10,698	11,649
NII	**6,003**	**6,253**	**6,665**	**7,522**	**7,858**	**8,201**
y/y growth (%)	9.8	14.7	14.4	28.0	30.9	31.2
Non-interest income	2,512	2,439	2,591	2,453	2,905	2,436
Total income	**8,515**	**8,692**	**9,257**	**9,975**	**10,763**	**10,637**
y/y growth (%)	18.0	17.9	14.4	22.2	26.4	22.4
Operating expenses	1,965	2,006	2,244	2,302	2,346	2,347
of which, staff cost	2,140	2,176	2,307	2,541	2,621	2,484
PPoP	**4,410**	**4,509**	**4,706**	**5,132**	**5,796**	**5,806**
y/y growth (%)	25.4	20.7	9.9	17.7	31.4	28.8
Total provisions	780	700	570	960	1,200	780
PBT	**3,630**	**3,809**	**4,136**	**4,172**	**4,596**	**5,026**
Tax	750	750	850	850	1,000	1,200
PAT	**2,880**	**3,059**	**3,286**	**3,322**	**3,596**	**3,826**
y/y growth (%)	13.0	15.7	15.2	16.1	24.9	25.1

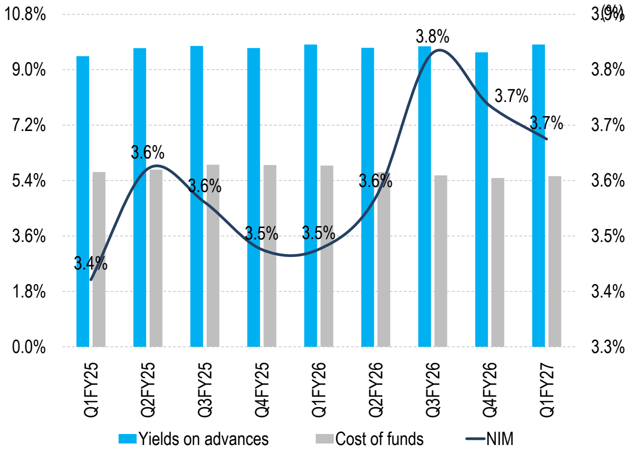
Source: Company, Anand Rathi Research

Fig 8 – Balance Sheet

Y/E Mar (Rs m)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Equity capital	741	741	741	741	743	991
Reserves & Surplus	93,925	96,942	98,519	1,01,841	1,04,906	1,09,179
Deposits	6,35,260	6,57,345	6,94,860	7,05,159	7,83,080	7,93,423
Borrowings	21,694	17,460	21,827	19,643	53,268	51,703
Other Liabilities	24,612	25,507	28,076	-	28,248	28,590
Total Liabilities	**7,76,232**	**7,97,995**	**8,44,024**	**-**	**9,70,244**	**9,83,886**
y/y deposits growth (%)	14.1	19.8	21.1	21.0	23.3	20.7
q/q deposits growth (%)	9.0	3.5	5.7	1.5	11.1	1.3
Cash and cash balances	52,905	60,750	69,529	65,140	89,271	83,347
Advances	5,20,813	5,30,378	5,66,809	6,08,920	6,58,752	6,68,809
Investments	1,73,361	1,74,658	1,75,187	1,75,577	1,89,869	1,95,766
Other Assets	29,153	32,209	32,499	-	32,352	35,964
Total Assets	**7,76,232**	**7,97,995**	**8,44,024**	**-**	**9,70,244**	**9,83,886**
y/y advances growth (%)	14.4	13.9	18.7	20.8	26.5	26.1
q/q advances growth (%)	3.3	1.8	6.9	7.4	8.2	1.5

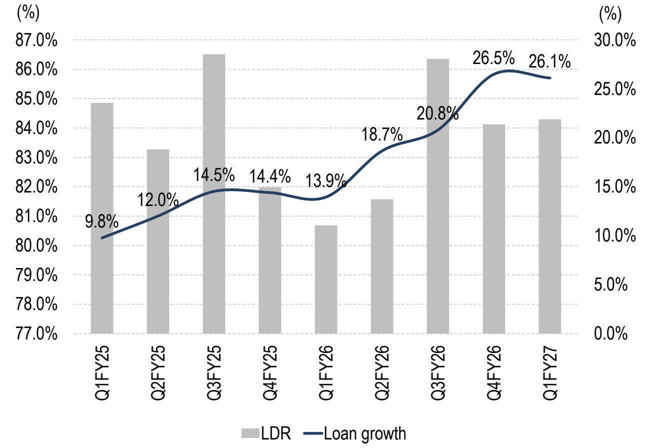
Source: Company, Anand Rathi Research

Fig 9 – Yield, Cost and Margin



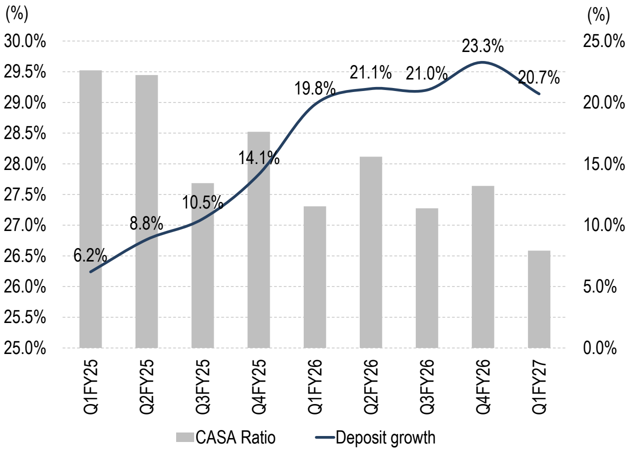
Source: Company, Anand Rathi Research

Fig 10 – Credit Growth vs. LDR



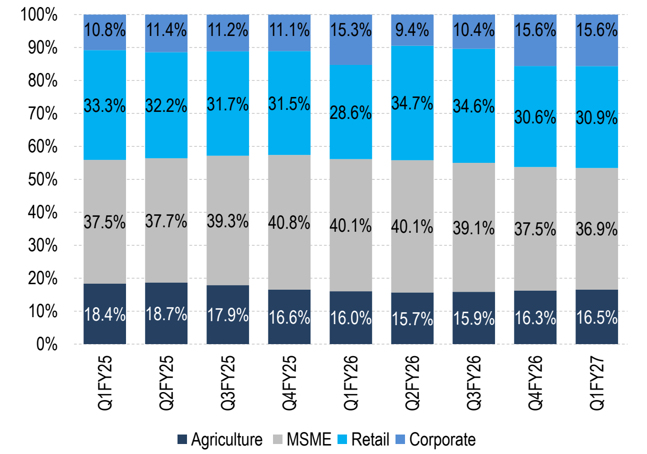
Source: Company, Anand Rathi Research

Fig 11 – Deposit Growth vs. CASA Ratio



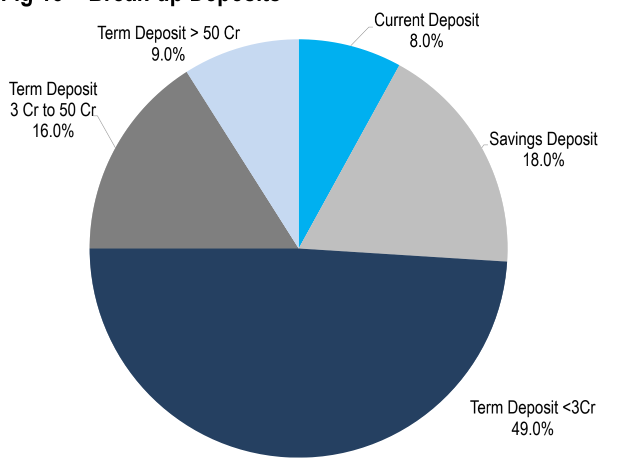
Source: Company, Anand Rathi Research

Fig 12 – Break-up of Loans



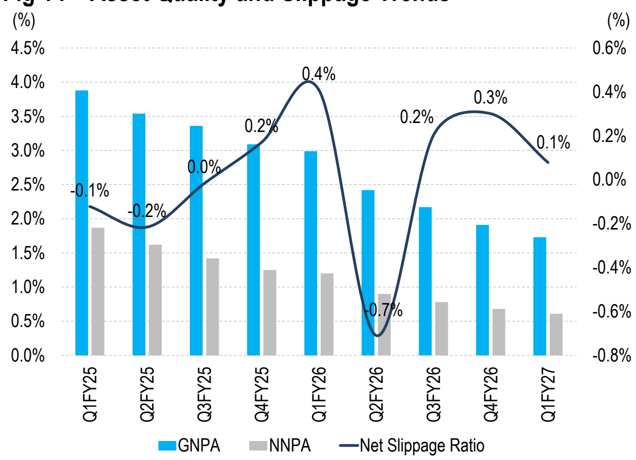
Source: Company, Anand Rathi Research

Fig 13 – Break-up Deposits



Source: Company, Anand Rathi Research

Fig 14 – Asset Quality and Slippage Trends



Source: Company, Anand Rathi Research

Outlook and Valuation

We expect the bank's earnings to remain resilient over FY27-28e, with RoA sustaining above 1.5%. At CMP, the stock trades at 1.7x FY28e P/ABV. We maintain BUY rating on the stock with a TP of Rs298, valuing it at 2.2x FY28e P/ABV.

Fig 15 – Change in Estimates

(Rs m)	FY27e			FY28e		
	New Estimates	Old Estimates	Change (%)	New Estimates	Old Estimates	Change (%)
NII	34,280	34,190	0.3	39,875	39,770	0.3
PPoP	24,110	24,020	0.4	27,866	27,761	0.4
PAT	15,558	15,319	1.6	17,836	17,622	1.2

Source: Anand Rathi Research

Key Risks

- Higher-than-expected slippages.
- Less-than-anticipated loan growth.

Appendix

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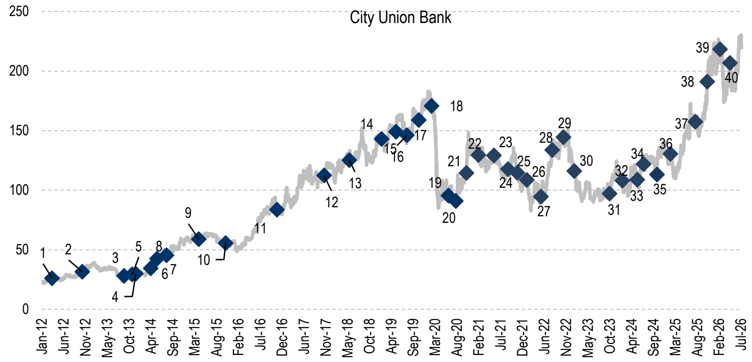

	Date	Rating	TP (Rs)	Share Price (Rs)
27	30-May-22	**Buy**	135	104
28	09-Aug-22	**Buy**	143	104
29	04-Nov-22	**Buy**	165	143
30	11-Feb-23	**Buy**	138	120
31	27-Oct-23	**Buy**	125	101
32	01-Feb-24	**Buy**	134	108
33	20-May-24	**Buy**	143	114
34	28-Jul-24	**Buy**	144	120
35	21-Oct-24	**Buy**	150	113
36	31-Jan-25	**Buy**	164	131
37	31-Jul-25	**Buy**	201	161
38	04-Nov-25	**Buy**	221	177
39	03-Feb-26	**Buy**	265	212
40	28-Apr-26	**Buy**	266	203

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