City Union Bank (CITUNI)

CMP: ₹ 228 | Target ₹ 230 (1%) | Target Period: 12 months

HOLD

July 29, 2026

Strong quarter; RoA expansion levers remain limited

About the stock: City Union Bank is an old private sector bank with focus on MSME and agri loans that form ~54% of overall advances.

- Strong presence in South India with 770 out of total 1000 branches

Q1FY27 performance: City Union Bank reported another strong quarter, with PAT rising 25% YoY (6.4% QoQ) to ₹383 crore, supported by healthy business momentum and stable asset quality. Advances grew 25% YoY (1.5% QoQ) to ₹67,645 crore, led by sustained traction in MSME, gold loans and secured retail, while deposits increased 21% YoY (1.3% QoQ) to ₹79,342 crore, with average CASA growing 22% YoY. NII increased 31% YoY (4.4% QoQ) to ₹820 crore, aided by robust loan growth and stable lending yields, while NIM moderated 9 bps QoQ to 3.78% due to higher borrowing cost despite lower deposit cost. Other income remained largely flat YoY at ₹244 crore, impacted by lower fee income, though treasury gains improved. Operating expenses rose 16% YoY, while cost-to-income ratio improved to 45.4%. Provisions increased 37% YoY, largely on account of higher tax and standard asset provisions, while asset quality continued to strengthen with GNPA/NNPA improving to 1.73%/0.61% and PCR rising to 85%. RoA remained healthy at 1.57%, while capital adequacy stayed comfortable at 21.7%.

Investment Rationale:

- **Growth remains robust; core MSME growth to remain key:** Business momentum remained robust during the quarter, with advances growing 25% YoY, while management reiterated its aspiration to deliver credit growth 2–3% above the industry, supported by its diversified secured portfolio comprising MSME (55–60% of advances), gold loans (30–35%) and secured retail. While MSME growth (15% YoY) trailed the overall loan book due to moderation in credit utilisation to ~70% (vs. 73–74% historically), management attributed this to lower customer utilisation rather than weakening demand and expects utilisation to improve going forward. Deposit growth remained healthy at 21% YoY, albeit marginally below advances, with CD ratio remaining comfortable at ~85%. The bank also continues to focus on granular, branch-led expansion, with DSA sourcing limited to 1–2% of loan book. We bake in ~17% credit CAGR over FY27–28E.
- **Gradual improvement in RoA amid limited levers:** Management expects NIM to remain in the 3.65–3.7% range, supported by stable lending yields and a favourable portfolio mix, although a gradual increase in deposit rates and elevated borrowing cost is likely to keep margin expansion limited. Borrowing cost increased to ₹94 crore (vs. ₹72 crore in Q4FY26), while management expects funding cost to remain elevated over the next couple of quarters. In addition, cost-to-income ratio is guided to remain at 47–48%, with wage revisions and branch expansion. Consequently, we see limited levers for RoA expansion beyond the current ~1.6% levels in the near term. However, improving fee income, recovery in MSME disbursements, operating leverage and AI-led productivity initiatives should support profitability over the medium term.

Rating and Target Price: While the bank continues to deliver healthy business growth and maintain resilient asset quality, near-term earnings upside appears constrained by limited RoA expansion levers. Sustained recovery in core MSME growth beyond the current gold loan-led momentum remains a key monitorable. Given recent run up in stock price, we downgrade the stock to HOLD from BUY and revise our target price to ₹230, valuing the stock at 1.7x FY28E BV

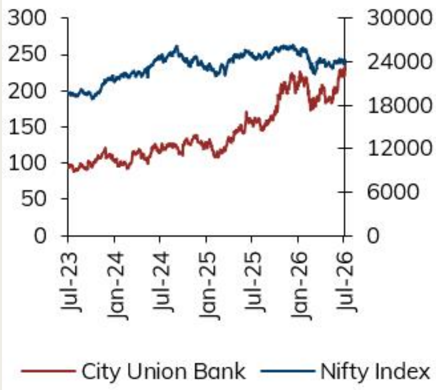
Particulars

Particulars	
Market Capitalisation	₹ 22,649 crore
52 week H/L	₹ 245 / 145
Networth	₹ 10,590 crore
Face value	1
DII Holding (%)	44.8
FII Holding (%)	18.7

Shareholding pattern

(in %)	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	-	-	-	-
FII	26.0	23.5	23.4	18.7
DII	36.8	40.2	40.7	44.8
Others	37.2	36.3	35.9	36.5

Price Chart



Key risks

(i) Asset quality deteriorates

(ii) Higher than anticipated business growth

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi
parth.chintkindi@icicisecurities.com

Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY25	FY26	3 year CAGR (FY23-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	2316	2830	9%	3437	3988	19%
PPP	1679	2014	3%	2415	2794	18%
PAT	1124	1326	12%	1602	1798	16%
BV (₹)	95.6	106.9		127.6	145.5	
ABV (₹)	88.8	102.2		123.3	140.1	
P/ABV	2.4	2.1		1.8	1.6	
P/BV	2.2	2.0		1.8	1.6	
P/E	18.3	15.5		14.1	12.6	
RoA	1.6	1.6		1.7	1.6	
RoE	13.6	14.4		15.0	14.4	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Management reiterated its strategy of delivering credit growth 2–3% above industry growth during FY27.
- Advances grew 25% YoY (1.5% QoQ) to ₹67,645 crore, led by sustained traction in MSME, gold loans and secured retail.
- Loan mix guidance remains unchanged:
  - MSME: 55–60%
  - Gold loans: 31–32%
  - Secured retail: Balance portfolio (~10%)
- Lending through third-party sourcing (DSAs) will remain limited at 1–2% of the loan book.
- Lower MSME utilization (~70% vs historical 73–74%) moderated growth during the quarter despite healthy demand.
- Monthly MSME repayments remain at ~₹900 crore, and average MSME disbursements are ~₹3,500 crore per quarter.
- Deposits increased 21% YoY (1.3% QoQ) to ₹79,342 crore, with average CASA growing 22% YoY.
- Under RBI's FCNR(B) relaxation, the bank has mobilized around ₹150 crore of fresh deposits.

Margins

- Management expects NIM to remain within 3.65–3.70% over the near term and ~3.7–3.75% over the longer term.
- Deposit rates are expected to inch up over the next few quarters, which may impact NIM by ~5 bps.
- Overall cost of funds increased due to higher borrowings, with borrowing costs rising to ₹94 crore (vs ₹72 crore in Q4FY26), and management expects this to continue over the next two quarters.

Asset Quality and Opex

- Salary revisions effective from July are expected to increase operating expenses in subsequent quarters.
- Cost-to-income ratio is expected to remain around 47–48% during FY27.
- Over the medium term, management aims to reduce the cost-to-income ratio to below 45% through automation, AI initiatives and operating leverage.
- Slippages stood at ₹195 crore, while recoveries were higher at ₹206 crore (₹182 crore from live NPAs and ₹24 crore from technically written-off accounts).
- Management indicated no meaningful stress arising from the West Asia geopolitical situation, with borrower interactions suggesting resilient domestic demand.
- Credit cost guidance remains around 0.4% over the medium term.
- Annual slippages are expected to remain ~₹700–750 crore.

Other updates

- Outstanding ECLGS exposure has increased from around ₹200 crore to ₹800 crore.
- Under the proposed ECL framework, provisioning requirement is estimated at around 0.45% of the loan book.
- Capital impact is expected to be limited to around 60–65 bps, reflecting the bank's secured portfolio.
- Treasury gains during Q1FY27 stood at around ₹52.5 crore, compared to ₹29 crore in Q4FY26.
- RoA is expected to sustain at 1.55%+, with exit RoA of 1.6–1.65% supported by improving fee income and stable asset quality.
- Yields profile– agri gold 10-10.5%; Non-agri gold: 11-11.5%; LAP: 9.6-9.7%; and MSME: 9.3-9.4%.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY27	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	820.1	625.3	31.2	785.8	4.4	Aided on the back of 31% YoY loan growth and repricing of deposits
NIM (%)	3.78	3.54	24 bps	3.87	-9 bps	Margins came in broadly in line with guidance; management reiterated 3.65–3.7% NIM guidance
Other Income	243.6	243.9	-0.1	290.5	-16.1	QoQ revival in treasury gains were offset by weaker fees income
Net Total Income	1,063.7	869.2	22.4	1,076.3	-1.2	
Staff cost	234.7	200.6	17.0	234.6	0.1	C/I ratio improved to ~45%
Other Operating Expenses	248.4	217.6	14.1	262.1	-5.2	
PPP	580.6	450.9	28.8	579.6	0.2	
Provision	78.0	70.0	11.4	120.0	-35.0	Benign slippages; Credit cost guidance remains around 0.4% over the medium term
PBT	502.6	380.9	31.9	459.6	9.4	
Tax Outgo	120.0	75.0	60.0	100.0	20.0	
PAT	382.6	305.9	25.1	359.6	6.4	Aided by healthy loan growth and benign provisions
Key Metrics						
GNPA	1,169.7	1,617.0	-27.7	1,273.1	-8.1	GNPA improved by 18 bps QoQ to 1.73%
NNPA	4,052.0	634.6	538.5	4,494.2	-9.8	
Advances	67,645.4	54,020.3	25.2	66,698.8	1.4	Healthy growth led by non agri gold (56% YoY) and large industries (28.7% YoY)
Deposits	79,342.3	65,734.0	20.7	78,308.0	1.3	CASA grew by 17.5% YoY

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: **Profit and loss statement** ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	5,834.0	6,869.8	8,147.8	9,534.5
Interest Expended	3,518.3	4,039.9	4,711.0	5,546.3
Net Interest Income	2,315.7	2,829.8	3,436.8	3,988.1
growth (%)	9.1	22.2	21.4	16.0
Non Interest Income	898.1	1,038.8	1,119.9	1,240.5
Net Income	3,213.8	3,868.7	4,556.6	5,228.6
Staff cost	733.0	889.8	1,047.5	1,227.6
Other Operating expense	802.2	964.6	1,094.3	1,206.7
Operating profit	1,678.6	2,014.2	2,414.8	2,794.4
Provisions	262.0	343.0	386.6	517.8
Taxes	293.0	345.0	425.9	478.1
Net Profit	1,123.6	1,326.2	1,602.3	1,798.5
growth (%)	10.6	18.0	20.8	12.2
EPS (₹)	11.3	13.4	16.2	18.2

Source: Company, ICICI Direct Research

Exhibit 3: **Key ratios** ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares	99.1	99.1	99.1	99.1
EPS (₹)	11.3	13.4	16.2	18.2
BV (₹)	95.6	106.9	127.6	145.5
ABV (₹)	88.8	102.2	123.3	140.1
P/E	18.3	15.5	14.1	12.6
P/BV	2.2	2.0	1.8	1.6
P/ABV	2.4	2.1	1.8	1.6
Yields & Margins (%)				
Net Interest Margins	3.3	3.4	3.5	3.5
Yield on assets	8.3	8.2	8.2	8.4
Avg. cost on funds	5.6	5.4	5.3	5.5
Yield on average advances	9.6	9.4	9.5	9.4
Avg. Cost of Deposits	4.9	5.3	5.3	5.3
Quality and Efficiency (%)				
Cost to income ratio	47.6	47.8	46.9	46.4
Credit/Deposit ratio	82.0	84.1	85.8	86.6
GNPA	3.1	1.9	1.5	1.2
NNPA	1.3	0.7	0.6	0.6
RoE	13.6	14.4	15.0	14.4
RoA	1.6	1.6	1.7	1.6

Source: Company, ICICI Direct Research

Exhibit 4: **Balance sheet** ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	74.0	99.1	99.1	99.1
Reserves and Surplus	9,392.5	10,490.6	12,538.2	14,313.3
Networth	9,466.6	10,589.6	12,637.3	14,412.3
Deposits	63,526.0	78,308.0	89,557.9	103,888.4
Borrowings	2,169.4	5,326.8	4,061.8	4,395.9
Other Liabilities & Provisions	2,461.2	2,824.8	2,821.9	3,042.4
Total	77,623.2	97,049.2	109,103.7	125,763.8
Applications of Funds				
Fixed Assets	322.3	468.5	410.7	474.1
Investments	17,336.1	18,986.9	20,987.2	23,092.9
Advances	52,081.3	65,875.2	76,858.6	89,919.6
Other Assets	2,592.9	2,791.5	2,320.9	2,806.8
Cash with RBI & call money	5,290.5	8,927.1	8,526.3	9,470.5
Total	77,623.2	97,049.2	109,103.7	125,763.8

Source: Company, ICICI Direct Research

Exhibit 5: **Growth ratios**

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	9.6	25.0	12.4	15.3
Advances	14.4	26.5	16.7	17.0
Deposit	14.1	23.3	14.4	16.0
Total Income	12.0	20.0	19.9	15.7
Net interest income	9.1	22.2	21.4	16.0
Net profit	10.6	18.0	20.8	12.2
Net worth	12.2	11.9	19.3	14.0
EPS	11.3	18.0	20.8	12.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey	Head – Research	pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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