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Benign margin compression and healthy growth aids valuation...

About the stock: City Union Bank is an old private sector bank with focus on MSME and Agri loans that form ~56% of overall advances.

- Strong presence in South India with 733 out of total 876 branches
- Advance comprises of MSME (40%) and Agri (16%) segment. Diversifying focus towards other retail segment – home loan, personal loan etc.

Investment Rationale

- **Relatively better performance to aid valuation:** City Union Bank (CUB) reported a steady performance, with bottom-line growth of 16% YoY to ₹305.9 crore, supported by healthy business growth and stable asset quality. Advances grew 16% YoY to ₹54,020 crore, led by MSME and retail segments, while deposits rose 20% YoY to ₹65,734 crore, driven by 23% YoY rise in term deposits. NII rose 15% YoY to ₹625 crore, aided by strong loan momentum in MSME. NIMs compressed 6 bps QoQ to 3.54%, largely due to repricing effect, though remained better than peers. Provisions rose 33% YoY to ₹145 crore, primarily towards bad debts, though credit costs remained low at ~0.5%. Other income rose 27% YoY to ₹243.9 crore, supported by treasury gains and recoveries. Asset quality strengthened, with GNPA/NNPA declining to 2.99%/1.2% (vs 3.09%/1.25% QoQ).
- **Streamlining operations breaks credit momentum:** Management has guided for mid-teen credit growth in FY26, targeting 2–3% above system, led by continued traction in SME (up 24% YoY) and rising momentum in secured retail products like home & gold loans (retail book up 20% YoY). Growth will be supported by focus on granular lending, direct customer sourcing, and export-linked SME diversification. On liability side, deposit mobilisation is expected to pick up in H2FY26, driven by rollout of new CASA-focused products, calibrated bulk deposit strategy, and addition of 75–80 branches to enhance retail penetration and support a balanced credit-deposit profile. We expect growth CAGR at 14–15% in FY26–27E.
- **Margins well protected with resilient asset quality:** NIMs expected to broadly remain in guided range of 3.45–3.5%, despite repo repricing. This guidance is on the back of favourable asset mix towards higher-yielding MSME and retail loans, along with improved liabilities mobilisation. On asset quality front, the bank continues to report strong metrics, with GNPA improving 10 bps QoQ to 2.99% and SMA-2 reducing to ~1.6% of loans (vs 2.2% in Q1FY25). Gross slippages remained contained at ~1.7% of loans, predominantly from MSME and agri segment. Credit cost is expected to remain benign at 50–60 bps with targeting a further increase in specific PCR to ~63–64% to strengthen provisioning buffers.

Rating and Target Price

- Margins compression holds better than peers, while credit growth remains 2–3% faster than industry. However, potential stress in the MSME portfolio remains a key monitorable going forward. We provide valuation multiple at ~1.6x FY27E BV and thus target price at ₹250. Recommend Buy rating.



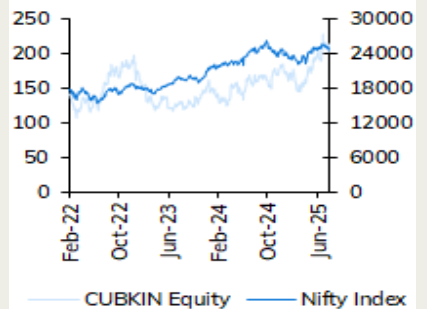
Particulars

Particulars	Amount
Market Capitalisation	₹ 16180 crore
52 week H/L	233 /143
Network	₹ 9467 crore
Face value	1
DII Holding (%)	35
FII Holding (%)	27

Shareholding Pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	-	-	-	-
FII	26.0	27.5	28.0	27.4
DII	33.6	33.6	33.0	35.2
Others	40.4	38.9	39.0	37.4

Price Chart



Key Risks

- (i) Stress builds up in MSME portfolio
- (ii) Slower than anticipated growth

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Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	2163	2123	2316	7%	2541	2987	14%
PPP	1818	1517	1679	2%	1812	2117	12%
PAT	937	1016	1124	14%	1209	1394	11%
BV (₹)	99.7	112.3	125.9		141.6	160.1	
ABV (₹)	86.0	100.0	116.9		133.3	152.5	
P/ABV	2.5	2.1	1.8		1.6	1.4	
P/BV	2.1	1.9	1.7		1.5	1.3	
P/E	16.8	15.5	14.0		13.1	11.3	
RoA	1.5	1.6	1.6		1.6	1.6	
RoE	10.6	13.8	13.6		13.1	13.3	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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