

City Union Bank (CUBK)

Banking | NBIE Investor Conference Update

BUY

CMP: Rs278 | Target Price (TP): Rs330 | Upside: 19%

November 17, 2025

MSME segment remains key focus area; retail growth gaining traction

Key Points

- We hosted the management of City Union Bank Ltd (CUB) represented by Mr. R Vijay Anandh, Executive Director and Mr. K Jayaraman, General Manager at the NBIE Investor Conference.
- Based on investor queries, following were the key takeaways: (1) Loan growth to be 2-3% higher than industry growth. (2) NIM, which was 3.63% in 2QFY26, to improve in H2FY26; for FY27 it should stand at 3.5-3.6%. (3) Retail segment should breakeven in FY26 and turn profitable from FY27, which will lead to a cost-to-income ratio below 48% from FY27. (4) On the asset quality front, the trend of recoveries being higher than slippages will continue for the next 2 quarters. (5) RoA guidance remains above 1.5%. (6) Retail segment is expected to be 9-10% of the bank's business in the next 2 years. The proportion of gold loans will remain at 28-30% of the loan book. (7) The bank's exposure to US exporters is Rs1.54bn.
- We have estimated loan/earnings CAGR of 15.6% /17.3% over FY25-FY28E, which will lead to RoA/RoE of 1.6%/14.3% in FY28E. We have valued CUB at 2x its Sep-27E ABV (as against 1.75x Sep-27E earlier), thus deriving a target price of Rs330 (as against Rs285 earlier). Our target multiple is at a 25% premium to the past 5-year average multiple of 1.6x. We are positive on CUB due to its improved growth prospects from the turnaround in the core MSME loan business and incremental contribution that is coming from the recent launch of the retail business. The asset quality and PCR have also improved. We maintain a 'BUY' rating on CUB.

Guidance on key parameters: The bank maintains its guidance of growing 2-3% higher than the industry. NIM of 3.63% in 2QFY26 was better than the management's expectation of 3.45%-3.5% due to faster repricing of deposits and migration to fixed rate of gold loans. Also, some of the high-cost refinance borrowings matured and were repriced at a lower cost. The NIM is expected to be 3.7-3.8% in 3QFY26 and 4QFY26, provided there is no further rate cut. NIM guidance for FY27 is 3.5-3.6%. Retail segment should breakeven in FY26 and turn profitable from FY27, which will lead to a cost-to-income ratio below 48% from FY27. On the asset quality front, the trend of recoveries being higher than slippages will continue for the next 2 quarters. Key drivers of RoA will be NIM improvement of around 15bps and decline in cost ratios. At present, 20bps of RoAs are supported by recoveries. RoA guidance remains above 1.5%.

Pickup in credit demand: After the GST rate cut, credit demand has picked up. Feedback from the bank's customers in the textiles industry is that demand in the industry has been good.

Retail segment gaining traction: In the retail segment the bank has built a book of Rs25bn and it is expected to be 9% of the bank's business in the next 2 years. In the home loans segment, the bank is focusing on ETB customers. In the overall retail loan book, 35% are NTB customers. The bank is using DSAs for the LAP segment for West and North markets. So for the retail segment, 90% of the sourcing is in-house and 10% is through DSAs. The bank plans to take the mix of DSAs to a maximum of 20-25%.

Est Change	Upwards
TP Change	Upwards
Rating	No Change

Company Data and Valuation Summary

Reuters	CTBK.BO
Bloomberg	CUBK IN Equity
Mkt Cap (Rsbn/US\$bn)	206.0 / 2.3
52 Wk H / L (Rs)	283 / 143
ADTV-3M (mn) (Rs/US\$)	746.0 / 8.4
Stock performance (%) 1M/6M/1yr	26.7 / 43.6 / 61.3
Nifty 50 performance (%) 1M/6M/1yr	3.1 / 4.6 / 10.6

Shareholding	4QFY25	1QFY26	2QFY26
Promoters	0.0	0.0	0.0
DILs	33.1	35.2	36.8
FILs	28.0	27.4	26.0
Others	38.9	37.4	37.3
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY25	FY26E	FY27E	FY28E
Net Interest Income	23,157	26,791	31,822	37,038
% growth	9.1	15.7	18.8	16.4
Net Interest Margin %	3.3	3.3	3.4	3.4
C/I Ratio	47.8	48.0	47.0	46.0
Operating Profit	16,786	19,323	22,938	26,874
% growth	10.7	15.1	18.7	17.2
Adjusted PAT	11,236	12,896	15,428	18,137
% growth	10.6	14.8	19.6	17.6
ABVPS (Rs)	119	134	152	174
P/ABV	2.3	2.1	1.8	1.6
RoA (%)	1.5	1.5	1.6	1.6
Leverage (x)	8.3	8.4	8.7	8.8
RoE (%)	12.6	12.9	13.8	14.3

Source: Company, Nirmal Bang Institutional Equities

Key Links- [Q2FY26Presentation](#) | [Q2FY26Result update](#)

Please refer to the disclaimer towards the end of the document.

The average yield on home loans is 8.8-8.9% and LAP is at 10.2%. The affordable housing and micro-LAP in rural and semi-urban areas should pick up in the next 2 quarters. The average ticket size of affordable housing is Rs2-2.2mn and for micro-LAP it is Rs1.5-1.8mn. In affordable housing, the bank is catering to first time home buyers, where more than one family member is employed. The salaried and self-employed mix is 50:50. In the rural markets, the affordable housing customers include gold loan customers who borrow for personal medical expenses and agriculture related short-term loans. In the micro-LAP segment, the company's competition is mainly from NBFCs.

Focus on MSMEs: The bank's major focus remains on the MSME segment, which along with the traders segment, forms 42% of the loan book. Asset quality of the segment remains robust and out of the lending proposals that the bank gets, the approval rate is 50-60%. While the bank continues to face competition from the large banks in this segment, it scores better in terms of regular servicing to the clients as this business is relationship driven.

Gold loans: In the gold loan business the LTV is 65%. The proportion of gold loans will remain at 28-30% of the loan book. The interest rate for agriculture gold loans is 9.5% and for retail gold loans it varies from 10.5-11%. 100% of the rural and semi-urban branches and 50-70% of urban branches are enabled for gold lending.

Limited exposure to the US export market: The bank's exposure to US exports is around Rs1.54bn, covering textile, food processing, gems and jewelry, and metal industries, etc., which are the major exporting industries to the US. As this exposure is limited to 0.27% of its loan book, the bank does not foresee any material impact on the asset quality due to US tariffs. Of this, the textile segment is a major exporter to the US and the exposure of this sector is 0.12% of the loan book. The bank's customers in export segment have made profits due to rupee depreciation and they are also planning to expand to the European markets.

ECL provisioning: The bank might have to make more provisions for unutilized portion of cash credit and non-fund based products like LC and BG. The average utilization for cash credit has been 65%, hence provisions will have to be made for the unutilized portion of 35%. Besides this, some provisions will be there for the SMA and restructured assets, some part of which will be going in stage 2 assets. The SMA book, which had gone up to 15-16% during COVID, is 5.6% on 30-Sep-25 and is likely to come down further.

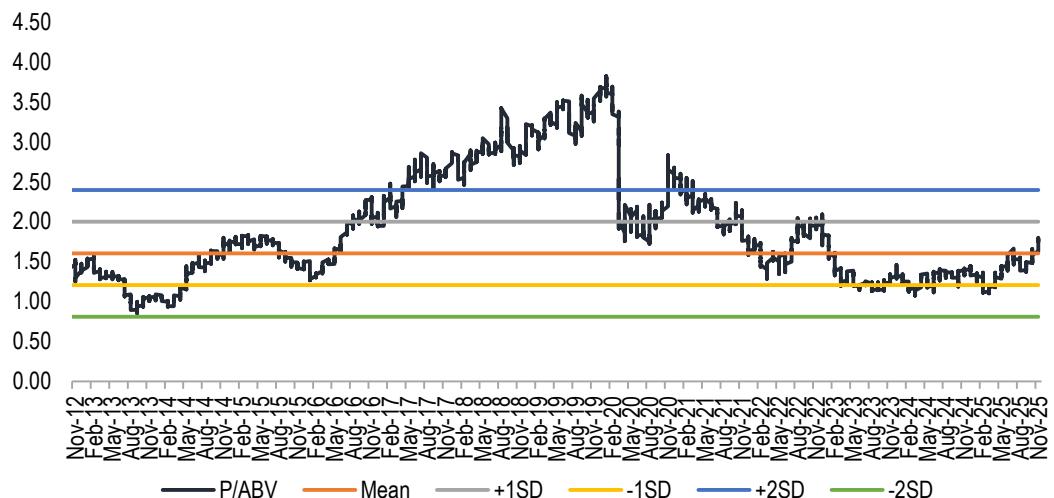
Capital raise: The bank does not require capital for a further 2 years. Gold loans, which form 30% of the loan book, are on zero risk weights. The retail book is at 75% risk weight.

TAT for sanctions and disbursements: The disbursement TAT is higher in some locations as legal checks, which are manual, usually take time. For sanctions, the TAT is 1-2 days for loans with ticket size up to Rs75mn, if the loan is classified as green. If the loan is classified as amber, the sanctions TAT is 3-4 working days. For disbursements the maximum TAT is 7-10 days.

Exhibit 1: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net interest income (Rsmn)	26,791	31,822	37,038	26,522	31,229	36,576	1.0	1.9	1.3
NIM	3.3	3.4	3.4	3.3	3.4	3.4	4 bps	7 bps	5 bps
Operating profit (Rsmn)	19,323	22,938	26,874	19,118	22,472	26,559	1.1	2.1	1.2
Profit after tax (Rsmn)	12,896	15,428	18,137	12,620	14,923	17,591	2.2	3.4	3.1
ABVPS (Rs)	134	152	174	133	151	172	0.3	0.6	0.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 3: Income statement

Y/E March (Rsmn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	52,706	58,340	66,124	76,207	89,167
Interest expense	31,471	35,183	39,334	44,385	52,129
Net interest income	21,235	23,157	26,791	31,822	37,038
Non-interest income	7,417	8,981	10,365	11,463	12,701
Net Revenue	28,651	32,138	37,156	43,285	49,740
Operating Expense	13,484	15,351	17,833	20,348	22,866
-Employee Exp	6,138	7,330	8,560	9,689	11,154
-Other Exp	7,346	8,022	9,273	10,658	11,712
Operating profit	15,167	16,786	19,323	22,938	26,874
Provisions	2,860	2,620	3,189	3,591	4,202
PBT	12,307	14,166	16,134	19,347	22,672
Taxes	2,150	2,930	3,238	3,918	4,534
PAT	10,157	11,236	12,896	15,428	18,137

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	741	741	741	741	741
Reserves & Surplus	83,274	93,925	1,03,781	1,17,667	1,33,990
Shareholder's Funds	84,014	94,666	1,04,522	1,18,408	1,34,731
Deposits	5,56,566	6,35,260	7,50,936	8,73,294	10,05,822
Borrowings	47,242	21,694	23,835	26,814	30,165
Other liabilities	20,436	24,612	22,460	21,805	26,179
Total liabilities	7,08,259	7,76,232	9,01,753	10,40,320	11,96,896
Cash/Equivalent	69,435	52,905	75,140	87,384	1,00,645
Advances	4,55,257	5,20,813	6,04,807	6,97,270	8,03,868
Investments	1,56,641	1,73,361	1,89,325	2,20,174	2,53,586
Fixed Assets	2,704	3,223	3,958	4,119	4,286
Other assets	24,221	25,929	28,522	31,375	34,512
Total assets	7,08,259	7,76,232	9,01,753	10,40,320	11,96,896

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5 : Key ratios

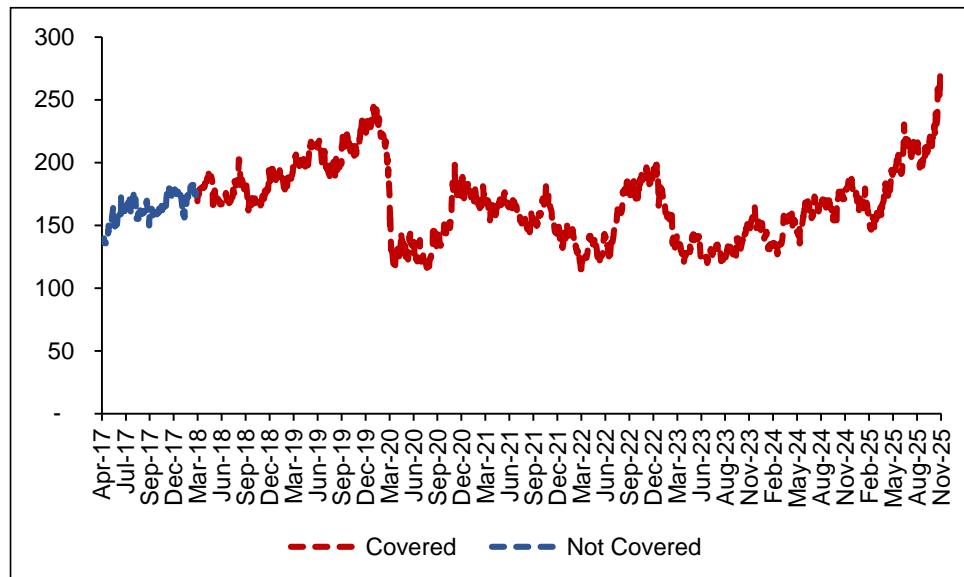
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Growth (%)					
NII growth	-1.8	9.1	15.7	18.8	16.4
Pre-provision profit growth	-16.6	10.7	15.1	18.7	17.2
PAT growth	8.3	10.6	14.8	19.6	17.6
Business (%)					
Deposit growth	6.2	14.1	18.2	16.3	15.2
Advance growth	5.7	14.4	16.1	15.3	15.3
CD	81.8	82.0	80.5	79.8	79.9
CASA	30.6	28.5	28.3	28.7	29.1
Operating efficiency (%)					
Cost-to-income	47.1	47.8	48.0	47.0	46.0
Cost-to-assets	2.0	2.1	2.1	2.1	2.0
Spreads (%)					
Yield on advances	9.4	9.6	9.5	9.5	9.7
Yield on investments	6.4	6.5	6.3	6.4	6.5
Cost of deposits	5.4	5.5	5.4	5.2	5.3
Yield on assets	8.1	8.3	8.2	8.2	8.3
Cost of funds	5.4	5.6	5.5	5.3	5.4
NIMs	3.3	3.3	3.3	3.4	3.4
Capital adequacy (%)					
Tier I	22.7	22.7	20.0	19.7	19.5
Tier II	1.0	1.1	0.0	0.0	0.0
Total CAR	23.7	23.8	20.0	19.7	19.5
Asset Quality (%)					
Gross NPA	4.0	3.1	2.4	2.3	2.3
Net NPA	2.0	1.3	0.9	0.8	0.7
Provision coverage	51.5	60.1	64.2	66.2	68.2
Slippage	2.2	1.5	1.4	1.6	1.6
Credit-cost	0.6	0.5	0.6	0.6	0.6
Return (%)					
ROE	12.8	12.6	12.9	13.8	14.3
ROA	1.5	1.5	1.5	1.6	1.6
RORWA	2.9	3.0	2.8	2.7	2.8
Per share					
EPS	14	15	17	21	24
BV	113	128	141	160	182
ABV	101	119	134	152	174
Valuation					
P/E	20.2	18.3	15.9	13.3	11.3
P/BV	2.4	2.2	2.0	1.7	1.5
P/ABV	2.7	2.3	2.1	1.8	1.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	171	216
25 May 2018	Buy	183	226
9 August 2018	Buy	178	233
9 October 2018	Buy	165	232
5 November 2018	Buy	169	235
29 January 2019	Buy	191	237
8 April 2019	Buy	202	238
20 May 2019	Buy	199	242
8 July 2019	Buy	206	248
9 August 2019	Buy	194	234
23 September 2019	Buy	212	247
7 October 2019	Buy	218	258
8 November 2019	Buy	212	250
8 January 2020	Buy	230	264
13 February 2020	Buy	228	263
27 March 2020	Buy	135	208
9 April 2020	Buy	119	208
19 June 2020	Buy	136	158
9 July 2020	Buy	135	158
14 August 2020	Buy	117	162
23 September 2020	Buy	136	178
7 October 2020	Buy	145	178
3 November 2020	Buy	151	187
26 November 2020	Hold	177	200
08 January 2021	Hold	185	214
4 February 2021	Buy	182	214
21 February 2021	Buy	165	224
30 May 2021	Buy	174	218
07 August 2021	Buy	154	214
26 September 2021	Buy	150	219
15 November 2021	Buy	164	215
06 February 2022	Buy	144	213
29 May 2022	Buy	127	176
09 August 2022	Buy	163	189
19 September 2022	Buy	179	215
05 November 2022	Buy	189	222
12 February 2023	Buy	160	190
22 March 2023	Buy	128	178
28 May 2023	Hold	139	151
13 August 2023	Hold	129	143
29 October 2023	Hold	134	148
12 December 2023	Hold	157	168
02 February 2024	Hold	144	156
21 May 2024	Hold	153	167
07 July 2024	Hold	170	165
28 July 2024	Hold	160	164
10 October 2024	Hold	154	163
22 October 2024	Hold	151	163
6 December 2025	Hold	186	183
10 January 2025	Hold	165	180
1 February 2025	Buy	174	205
9 April 2025	Buy	162	205
3 May 2025	Buy	174	204
10 July 2025	Buy	218	260
1 Aug 2025	Buy	214	260
10 Oct 2025	Buy	215	260
4 Nov 2025	Buy	236	285
17 Nov 2025	Buy	278	330

Note: Coverage was transferred to Rati J Pandit with effect from 23-Jul-23

Rating track graph

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Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

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