

City Union Bank (CUBK)

Banking | NBIE Conference Update

BUY

CMP: Rs217 | Target Price (TP): Rs260 | Upside: 20%

July 6, 2025

Loan growth to be better than industry

Key Points

- We hosted the management of City Union Bank Ltd. (CUB) represented by Dr. N. Kamakodi, MD & CEO, in order to gain a better understanding of the bank's business model and growth outlook ahead.
- Based on queries by institutional investors following are the key takeaways: (1) FY26 loan growth guidance is at 2-3% higher than system credit growth. (2) NIMs are expected to be under pressure in the near term, but deposit repricing should start in the next 4-5 months, which should lead to ~3.5% NIMs for FY26. (3) Higher recoveries and savings in credit costs, increase in third party distribution income, and expected improvement in productivity of retail business should sustain RoA at 1.5% in FY26. (4) Retail lending should form 5-7% of the bank's loan book in the next 5 years. (5) The recoveries should continue to be higher than slippages in FY26. (6) The process of application for new MD & CEO will start September 2025 onwards.
- We have estimated a loan/earnings CAGR of 14.2%/15.7%, respectively, over FY25-FY27E, which will lead to improvement in RoA/RoE to 1.6%/13.3% in FY27E. We have valued CUB at 1.65x Jun-27E ABV (as against 1.6x Mar-27E ABV earlier) thus deriving a target price of Rs260 (as against Rs240 earlier). Our target multiple is at an 11.7% premium to the past 5-year average multiple of 1.5x. We are positive on CUB due to its improved growth prospects from the turnaround in the core MSME loan business and incremental contribution 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: CUB should continue to grow its loan book 2-3% higher than the system credit growth. If the system growth is at 12% the bank will grow its loan book at 15-16%. The segments driving this growth will be MSME, the traders segment, gold loans, and retail loans. MSME segment is 40-45% of the overall loan book. The bank also expects to have sufficient deposit growth, which will take care of credit growth. It closed FY25 with 3.6% NIM. NIMs are expected to be under pressure in the near term due to RBI's 100bps rate cut since Feb-25. The deposits are expected to reprice downwards from the next 4-5 months. For FY26, the bank should be able to maintain its NIM guidance at 3.5%. The bank will try and offset NIM pressure through higher recoveries and savings in credit costs and by way of increase in third party distribution income. The productivity of retail business will also start improving. All these factors will help maintain RoAs at the present level of 1.5%.

Quicker TAT: The bank has introduced digital lending using the scorecard developed by BCG. This coupled with LOS of Newgen software is helping the bank take quicker decisions for MSME credit less than Rs75mn.

Corporate/MSMEs credit discipline and balance sheets have improved: The credit discipline and balance sheets of businesses have improved. The capacity utilization of the system has not crossed 80%. The corporate investment cycle will start only when system capacity utilization crosses 85%.

Est Change	No Change
TP Change	Upwards
Rating	No change

Company Data and Valuation Summary

Reuters	CTBK.BO
Bloomberg	CUBK IN Equity
Mkt Cap (Rsbn/US\$bn)	161.0 / 1.9
52 Wk H / L (Rs)	233 / 143
ADTV-3M (mn) (Rs/US\$)	512.6 / 6.0
Stock performance (%) 1M/6M/1yr	9.9 / 23.8 / 25.7
Nifty 50 performance (%) 1M/6M/1yr	3.7 / 11.2 / 4.7

Shareholding	2QFY25	3QFY25	4QFY25
Promoters	0.0	0.0	0.0
DILs	33.6	33.6	33.1
FILs	26.0	27.4	28.0
Others	40.4	39.0	38.9
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rs mn)	FY24	FY25	FY26E	FY27E
NII	21,235	23,157	25,867	31,324
% growth	(1.8)	9.1	11.7	21.1
NIM %	3.3	3.3	3.3	3.5
C/I Ratio %	47.1	47.8	48.2	46.5
Operating Profit	15,167	16,786	18,522	22,565
% growth	(16.6)	10.7	10.3	21.8
Adjusted PAT	10,157	11,236	12,610	15,037
% growth	8.3	10.6	12.2	19.2
ABVPS (Rs)	110	126	141	159
P/ABV	2.0	1.7	1.5	1.4
RoA (%)	1.5	1.5	1.5	1.6
Leverage (x)	8.7	8.3	8.3	8.4
RoE (%)	12.8	12.6	12.6	13.3

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Key Links- [4QFY25presenation](#)

[4QFY25 Result Update](#)

[NBIE Conference Update](#)

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A lot of investment is happening in power generation including solar energy. With respect to the textiles sector, considering the developments in Bangladesh and Tamil Nadu being an important textiles hub, the bank has been getting feedback from its customers that they are seeing increase in demand in the sector and they will have to plan for capacity expansion in a year.

Retail lending: CUB launched retail lending products like home loans, affordable housing, LAP, and micro-LAP. Before launching the retail verticals, it observed that 20-25% of its books, particularly depositors, had borrowed home loans, LAP, and personal loans from other institutions. It is focusing on the secured retail segment and is not getting much into the unsecured loan segment. Every year the proportion of retail loans will be going up 1-1.5%. In 5 years, around 5-7% of the bank's loan book will comprise of the retail segment. The reliance on DSAs will be only 5-10% of the retail book and it will be largely own sourcing. The bank will focus on all segments including ETB, NTB, and balance transfers.

Gold lending: Out of the 875 branches, ~500 branches are enabled for gold lending. All of its semi-urban and rural branches in South India are enabled for gold loans. 70% of gold loans are agriculture gold loans. Consumption and non-agriculture gold loans are 25-30% of the gold loans. Agriculture loans yield is 9-9.5% and non-agriculture loans yield is 10-11%. Average LTV of gold loans is 75%. As compared to the draft circular, the final circular has come out to be positive for regulated entities. Not less than 60-70% of the gold loan book is of the <Rs0.5mn segment.

Asset quality to improve further: The slippages are expected to reduce further. The NPA recoveries have surpassed slippages and this trend will continue this year. In the long term, the bank has got Rs70-80 as recoveries against every slippage of Rs100.

Branch presence and breakeven: CUB has 875 branches, of which 60% are in Tamil Nadu, and 20-25% are in the southern states. The bank is slowly expanding to other parts of the country. A branch in South India takes 1.5-2 years to breakeven and outside South India it takes 2.5-3 years to breakeven.

Increased focus on fee income: The bank has increased its focus on the core fee income. After the liberalization of bancassurance, it has increased its partnerships in life, general, and the health insurance space. The insurance commission has doubled from ~Rs450mn in FY24 to Rs1bn in FY25. The bank is starting in a smaller way for the distribution of mutual fund and wealth management products. While the third-party distribution income is growing higher due to low base, other types of fee income are growing in line with the balance sheet growth. It has also tied up with investment advisory services for offering MF products through the bank's application.

Succession planning: As per the current RBI regulations, in case of a private bank, a person is allowed to be MD & CEO for a maximum period of 15 years. Dr. N. Kamakodi has completed 14 years with the bank. His tenure will get completed on 30-Apr-26. The process of application for the new MD & CEO will start from September. The bank has two EDs on its board.

Exhibit 1: Financial summary

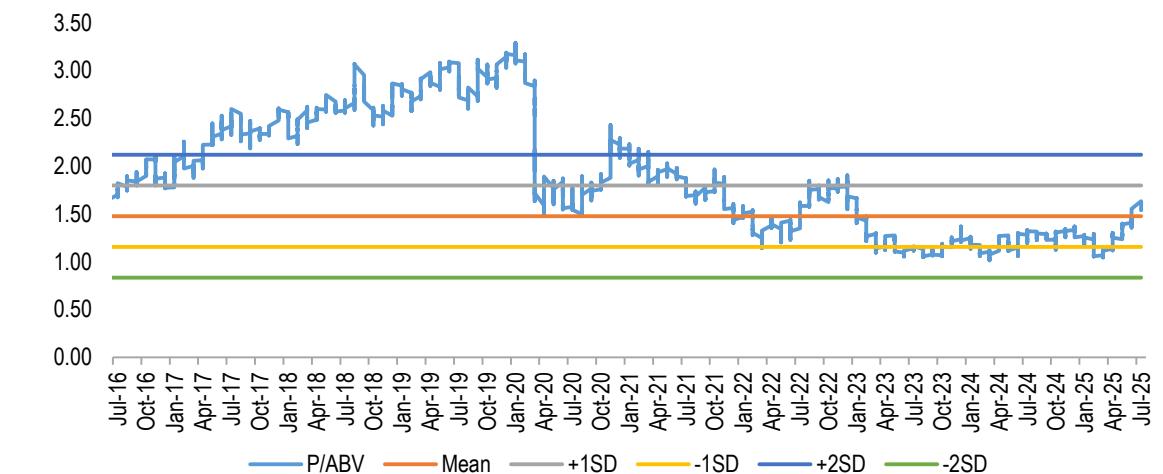
Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Net interest income	21,628	21,235	23,157	25,867	31,324
Operating profit	18,180	15,167	16,786	18,522	22,565
PAT	9,375	10,157	11,236	12,610	15,037
EPS (Rs)	13	14	15	17	20
BV (Rs)	101	113	128	143	161
P/E (x)	17.2	15.8	14.3	12.8	10.7
P/BV (x)	2.2	1.9	1.7	1.5	1.3
GNPAs (%)	4.4	4.0	3.1	2.9	2.8
NNPAs (%)	2.4	2.0	1.3	1.1	1.0
RoA (%)	1.5	1.5	1.5	1.5	1.6
RoE (%)	13.4	12.8	12.6	12.6	13.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised Estimate		Earlier Estimate		% Revision	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Net interest income (Rsmn)	25,867	31,324	26,830	31,867	(3.6)	(1.7)
NIM (%)	3.3	3.5	3.4	3.5	-13 bps	-6 bps
Operating profit (Rsmn)	18,522	22,565	19,075	22,985	(2.9)	(1.8)
Profit after tax (Rsmn)	12,610	15,037	12,625	15,013	(0.1)	0.2
ABVPS (Rs)	141	159	141	159	(0.0)	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	47,143	52,706	58,340	64,205	74,941
Interest expense	25,515	31,471	35,183	38,337	43,617
Net interest income	21,628	21,235	23,157	25,867	31,324
Non-interest income	8,104	7,417	8,981	9,857	10,838
Net Revenue	29,732	28,651	32,138	35,725	42,162
Operating Expense	11,552	13,484	15,351	17,203	19,598
-Employee Exp	5,304	6,138	7,330	8,192	9,332
-Other Exp	6,248	7,346	8,022	9,011	10,266
Operating profit	18,180	15,167	16,786	18,522	22,565
Provisions	6,405	2,860	2,620	2,712	3,711
PBT	11,775	12,307	14,166	15,810	18,853
Taxes	2,400	2,150	2,930	3,200	3,817
PAT	9,375	10,157	11,236	12,610	15,037

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Growth (%)					
NII growth	12.9	-1.8	9.1	11.7	21.1
Pre-provision profit growth	14.0	-16.6	10.7	10.3	21.8
PAT growth	23.3	8.3	10.6	12.2	19.2
Business (%)					
Deposit growth	9.9	6.2	14.1	13.9	13.9
Advance growth	6.7	5.7	14.4	14.2	14.2
CD	82.2	81.8	82.0	82.1	82.3
CASA	29.9	30.6	28.5	28.9	29.3
Operating efficiency (%)					
Cost-to-income	38.9	47.1	47.8	48.2	46.5
Cost-to-assets	1.8	2.0	2.1	2.1	2.1
Spreads (%)					
Yield on advances	9.1	9.4	9.6	9.4	9.6
Yield on investments	6.3	6.4	6.5	6.1	6.1
Cost of deposits	4.6	5.4	5.5	5.3	5.3
Yield on assets	7.8	8.1	8.3	8.1	8.3
Cost of funds	4.6	5.4	5.6	5.5	5.5
NIMs	3.6	3.3	3.3	3.3	3.5
Capital adequacy (%)					
Tier I	21.3	22.7	21.7	20.6	20.7
Tier II	1.1	1.0	0.6	0.5	0.4
Total CAR	22.3	23.7	22.3	21.1	21.1
Asset Quality (%)					
Gross NPA	4.4	4.0	3.1	2.9	2.8
Net NPA	2.4	2.0	1.3	1.1	1.0
Provision coverage	47.0	51.5	60.1	62.1	64.1
Slippage	3.0	2.2	1.5	1.8	1.8
Credit-cost	1.5	0.6	0.5	0.5	0.6
Return (%)					
ROE	13.4	12.8	12.6	12.6	13.3
ROA	1.5	1.5	1.5	1.5	1.6
RORWA	2.9	2.9	2.8	2.7	2.8
Per share					
EPS	13	14	15	17	20
BV	101	113	128	143	161
ABV	97	110	126	141	159
Valuation					
P/E	17.2	15.8	14.3	12.8	10.7
P/BV	2.2	1.9	1.7	1.5	1.3
P/ABV	2.2	2.0	1.7	1.5	1.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

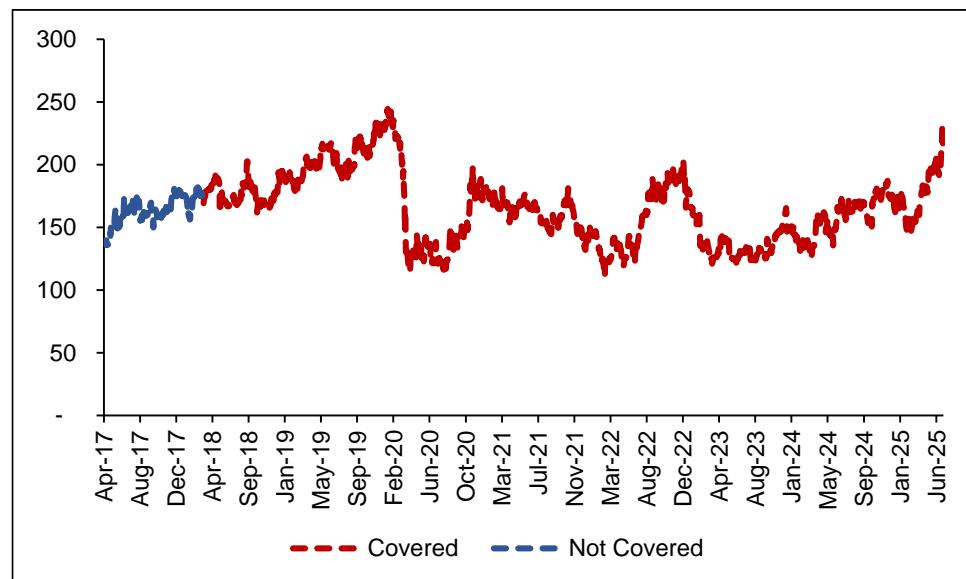
Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	740	741	741	741	741
Reserves & Surplus	73,832	83,274	93,925	1,05,274	1,18,807
Shareholder's Funds	74,572	84,014	94,666	1,06,015	1,19,548
Deposits	5,23,979	5,56,566	6,35,260	7,23,852	8,24,799
Borrowings	46,881	47,242	21,694	24,405	27,456
Other liabilities	20,514	20,436	24,612	30,058	35,755
Total liabilities	6,65,946	7,08,259	7,76,232	8,84,330	10,07,557
Cash/Equivalent	66,493	69,435	52,905	60,284	68,691
Advances	4,30,533	4,55,257	5,20,813	5,94,632	6,78,915
Investments	1,43,326	1,56,641	1,73,361	1,97,538	2,25,086
Fixed Assets	2,393	2,704	3,223	3,354	3,490
Other assets	23,200	24,221	25,929	28,522	31,375
Total assets	6,65,946	7,08,259	7,76,232	8,84,330	10,07,557

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
3 June 2025	Buy	199	240
6 July 2025	Buy	217	260

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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