

City Union Bank | BUY

Ticks most of the boxes

CUBK delivered a PAT growth 7% QoQ, supported by 7% QoQ growth in NII and lower credit cost. NIMs (calc.) expansion of 4bps QoQ was driven by faster repricing of deposits and gold loan migration to fixed-rate pricing. Management expects margins to remain steady in coming quarters, aided by deposit cost re-pricing. Asset quality improved further, with 35bps QoQ reduction in gross slippages, and negative net slippages driven by higher recoveries. Consequently, credit cost was down by 12bps QoQ to 40bps despite increase in PCR to 63%. SMA-2 book also declined to 1.34% vs. 1.6% in 1QFY26, which provides additional comfort on future asset quality trends. Loan and deposit growth momentum continue to remain healthy at 19%/21% YoY. With a strong capital base (CAR at 21.7%), improving asset quality, and a largely stable margin profile, we believe CUBK is well positioned to sustain its growth trajectory. We raise EPS by ~1%-3% for FY26-28E and build in average ROA/ROE of 1.5%/13% over FY26-28E. We maintain BUY with a revised TP of INR 285, valuing the bank at 1.8x FY27E BVPS.

- **Assets quality robust:** Gross slippages moderated to ~1.2% from ~1.5% in 1QFY26. However, net slippages trending negative led by higher recoveries/upgrades of ~15.5% (un-annualized). Despite increase in PCR by 245bps QoQ to ~63%, credit cost declined to 41bps from 53bps in 1QFY26. The bank also made an additional ECL buffer provision of INR 100mn during the quarter. Management has indicated that recoveries will continue to exceed slippages in the coming quarter.
- **Highest growth in a decade:** CUBK reported its highest loans/deposits growth in a decade, loans/deposits growing at 19%/21% YoY. Loan growth was driven by personal loan (grew 2x) followed by 52% YoY growth in non-agri gold, 26% YoY growth in MSME, 18% YoY growth in agri gold, and 17% YoY growth in home loans. Deposit growth was driven by 9% QoQ increase in low-cost deposits and 4.5% QoQ rise in term deposits. Deposit growth outpacing loan growth led to decline in CD ratio by 60bps QoQ to 81.6%.
- **Deposit repricing aided NIM:** The bank's margin expanded by 4bps QoQ driven by faster repricing of high-cost liabilities/term deposit and accelerated growth in CASA. This was further aided gold loan migration to fixed rate. Management guided for stable NIM in coming quarter on the back of faster repricing of liabilities.
- **Valuation and view:** The bank has delivered stellar outperformance with operational and PAT beat of 4% and 7%. Strong visibility of +2%-3% higher growth than sector growth led by MSME/gold/retail. We believe CUBK is well position to sustain its growth trajectory with sufficient capital adequacy of 21.7%. With bank's legacy in underwriting and managing MSME portfolio and minimal exposure to unsecured retail further underpins its resilient assets quality. At 1.5x FY27E BVPS the stock offers a favorable risk-reward profile. Sustained growth momentum, prudent risk management and improving operating leverage should aid further re-rating. We maintain our loan growth estimates ~15% over FY25-28E with average ROA/ROE of ~1.5% /13% for FY26-28E. **Maintain BUY with a revised TP of INR 285, valuing the bank at 1.8x FY27E BVPS closer to its historical valuation of 1.8x one-year fwd P/B.**



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	285
Upside/(Downside)	20.7%
Previous Price Target	250
Change	14.0%

Key Data – CUBK IN

Current Market Price	INR236
Market cap (bn)	INR174.9/US\$2.0
Free Float	94%
Shares in issue (mn)	741.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR449.1/US\$5.1
52-week range	241/143
Sensex/Nifty	83,978/25,763
INR/US\$	88.8

Price Performance

%	1M	6M	12M
Absolute	9.6	36.1	32.7
Relative*	6.0	30.4	26.0

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	10,157	11,236	13,536	14,461	17,347
Net Profit (YoY) (%)	8.3%	10.6%	20.5%	6.8%	20.0%
Assets (YoY) (%)	6.4%	9.6%	14.9%	17.9%	15.9%
ROA (%)	1.5%	1.5%	1.6%	1.5%	1.5%
ROE (%)	12.8%	12.6%	13.4%	12.8%	13.6%
EPS	13.7	15.2	18.3	19.5	23.4
EPS (YoY) (%)	8.3%	10.6%	20.5%	6.8%	20.0%
PE (x)	17.2	15.6	12.9	12.1	10.1
BV	113	128	144	162	183
BV (YoY) (%)	12.6%	12.6%	12.9%	12.2%	13.0%
P/BV (x)	2.08	1.85	1.64	1.46	1.29

Source: Company data, JM Financial. Note: Valuations as of 03/Nov/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

CUBK – 2QFY26 trends

Exhibit 1. City Union Bank 2QFY26 result summary

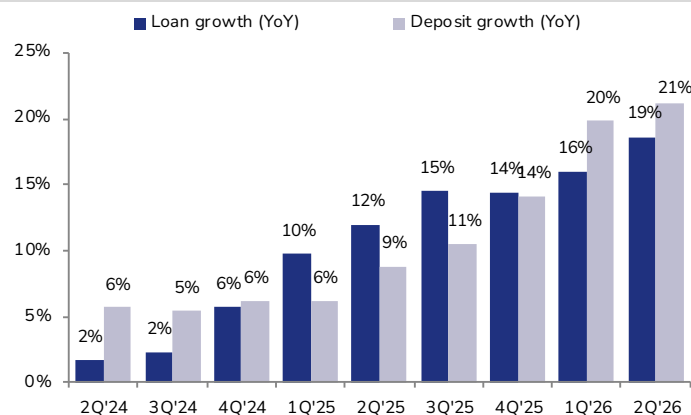
Earnings Table (INR mn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)	2QFY26E	A/E (%)
NII	5,825	6,253	6,665	14.4%	6.6%	6,440	3%
Fee based Income	1,046	1,226	1,346	28.7%	9.8%	1,441	-7%
Trading Profits	248	644	216	-12.9%	-66.5%	350	-38%
Misc. Income	969	569	1,029	6.2%	80.8%	650	58%
Non-Interest income	2,263	2,439	2,591	14.5%	6.3%	2,441	6%
Total Income	8,088	8,692	9,257	14.4%	6.5%	8,881	4%
Employee Cost	1,835	2,006	2,244	22.2%	11.8%		
Other Operating Expenses	1,971	2,176	2,307	17.1%	6.0%		
Total Operating Expenses	3,806	4,182	4,551	19.6%	8.8%	4,338	5%
Operating Profit	4,282	4,509	4,706	9.9%	4.4%	4,543	4%
Total Provisions	700	700	570	-18.6%	-18.6%	671	-15%
PBT	3,582	3,809	4,136	15.5%	8.6%	3,872	7%
Tax	730	750	850	16.4%	13.3%	794	7%
Reported Profit	2,852	3,059	3,286	15.2%	7.4%	3,078	7%
Balance sheet (INR bn)							
Deposits	574	657	695	21.1%	5.7%	677	3%
Net Advances	478	540	567	18.7%	4.9%	557	2%
Total Assets	714	798	844	18.3%	5.8%	824	2%
Low cost-deposit ratio (%)	29.4%	27.3%	28.1%	-1.3%	0.8%		
Loan-deposit ratio (%)	83.3%	82.2%	81.6%	-1.7%	-0.6%	82.3%	
Key Ratios							
Credit Quality							
Gross NPAs (INR mn)	17,255	16,170	13,932	-19.3%	-13.8%		
Net NPAs (INR mn)	7,750	6,346	5,129	-33.8%	-19.2%		
Gross NPA (%)	3.54%	2.94%	2.42%	-1.1%	-0.52%		
Net NPA (%)	1.62%	1.17%	0.90%	-0.7%	-0.27%		
Loan Loss Provisions (%)	0.59%	0.53%	0.41%	-0.2%	-0.1%	0.49%	
Coverage Ratio (%)	55.1%	60.8%	63.2%	8.1%	2.4%		
Capital Adequacy							
Tier I (%)	21.98%	22.09%	20.71%	-1.3%	-1.4%		
CAR (%)	22.98%	23.10%	21.68%	-1.3%	-1.4%		
Du-pont Analysis							
NII / Assets (%)	3.25%	3.18%	3.25%	0.0%	0.1%	3.18%	
Non-Interest Inc. / Assets (%)	1.26%	1.24%	1.26%	0.0%	0.0%	1.20%	
Operating Cost / Assets (%)	2.12%	2.13%	2.22%	0.1%	0.1%	2.14%	
Operating Profits / Assets (%)	2.39%	2.29%	2.29%	-0.1%	0.0%	2.24%	
Provisions / Assets (%)	0.39%	0.36%	0.28%	-0.1%	-0.1%	0.33%	
ROA (%)	1.59%	1.55%	1.60%	0.0%	0.0%	1.52%	

Source: Company, JM Financial

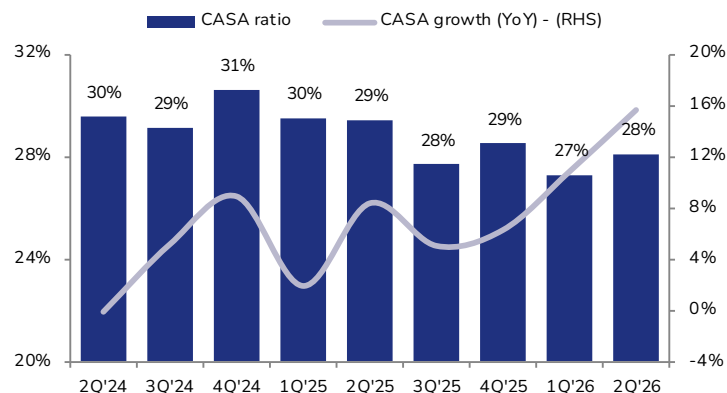
Exhibit 2. Loan book mix and growth

Loan Mix (INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Agriculture	91.2	86.7	90.4	-0.9%	4.3%
Includes Jewel Loans of	69.1	76.2	81.8	18.2%	7.3%
MSME	183.7	216.7	230.9	25.7%	6.6%
Retail traders	6.6	5.7	4.1	-38.1%	-28.4%
Wholesale traders	10.8	8.0	6.0	-44.4%	-24.5%
Large Industries	6.3	5.6	6.6	5.3%	17.7%
Commercial Real Estate	29.2	35.8	30.3	3.8%	-15.3%
Loans collateralized by deposits	8.0	8.7	8.4	5.0%	-3.5%
Infrastructure	3.0	3.2	3.0	1.8%	-4.8%
NBFC	17.2	13.7	14.4	-16.2%	5.6%
Others	41.9	43.6	47.4	13.0%	8.6%
Retail Loans	89.4	112.6	134.1	50.0%	19.1%
Personal Loans	13.2	13.7	26.0	97.6%	89.4%
Jewel loan (non-agri)	53.6	73.3	81.5	52.2%	11.2%
Housing Loans	22.7	25.6	26.5	17.1%	3.8%
Gross loans	487.2	540.2	575.6	18.1%	6.6%
Loan Mix %					
Agriculture	18.7%	16.0%	15.7%	-3.0%	-0.3%
Includes Jewel Loans of	14.2%	14.1%	14.2%	0.0%	0.1%
MSME	37.7%	40.1%	40.1%	2.4%	0.0%
Retail traders	1.3%	1.1%	0.7%	-0.6%	-0.3%
Wholesale traders	2.2%	1.5%	1.0%	-1.2%	-0.4%
Large Industries	1.3%	1.0%	1.1%	-0.1%	0.1%
Commercial Real Estate	6.0%	6.6%	5.3%	-0.7%	-1.4%
Loans collateralized by deposits	1.6%	1.6%	1.5%	-0.2%	-0.2%
Infrastructure	0.6%	0.6%	0.5%	-0.1%	-0.1%
NBFC	3.5%	2.5%	2.5%	-1.0%	0.0%
Others	8.6%	8.1%	8.2%	-0.4%	0.2%
Retail Loans	18.4%	20.9%	23.3%	5.0%	2.4%
Personal Loans	2.7%	2.5%	4.5%	1.8%	2.0%
Jewel loan (non-agri)	11.0%	13.6%	14.2%	3.2%	0.6%
Housing Loans	4.7%	4.7%	4.6%	0.0%	-0.1%
Gross loans	100.0%	100.0%	100.0%		

Source: Company, JM Financial

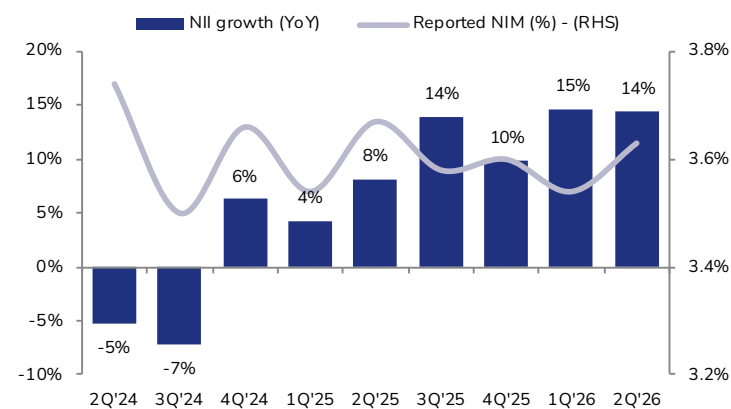
Exhibit 3. Loan and deposit growth trends

Source: Company, JM Financial

Exhibit 4. Trend in CASA deposits

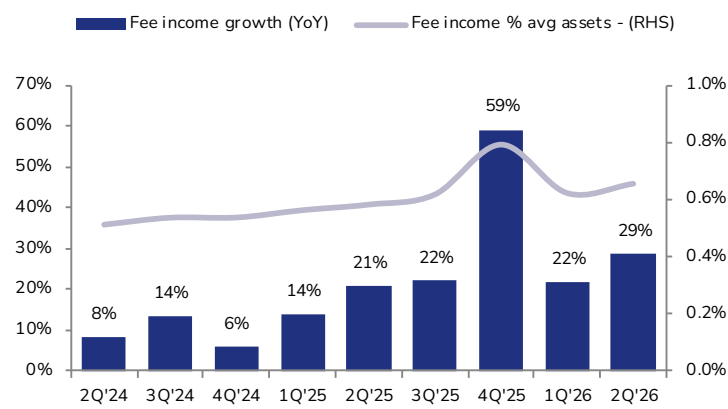
Source: Company, JM Financial

Exhibit 5. Trends in NII and NIM



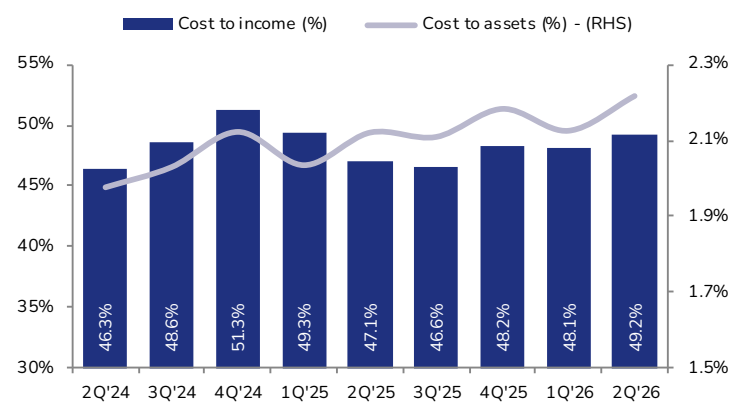
Source: Company, JM Financial

Exhibit 6. Trends in fee income



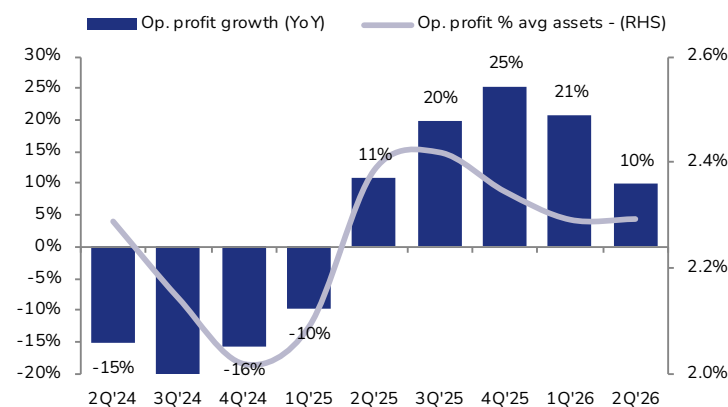
Source: Company, JM Financial

Exhibit 7. Trends in cost ratios



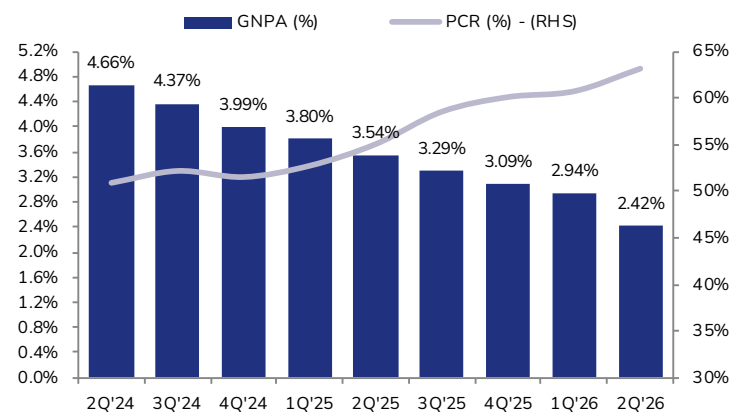
Source: Company, JM Financial

Exhibit 8. Trends in operating profitability



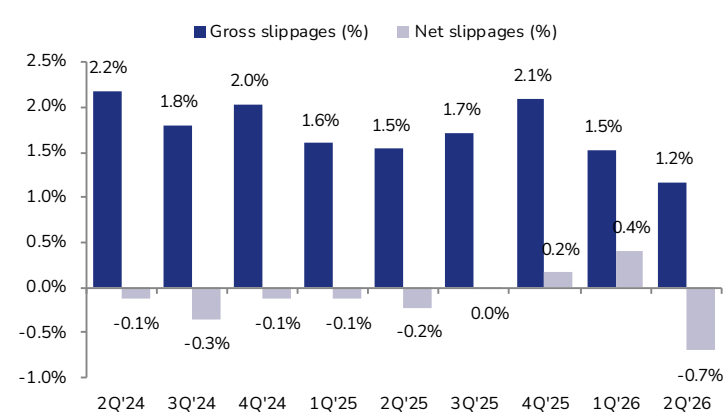
Source: Company, JM Financial

Exhibit 9. Trends in assets quality and PCR



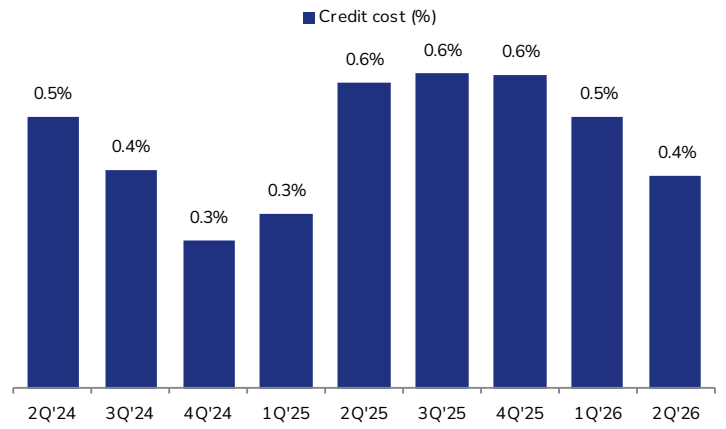
Source: Company, JM Financial

Exhibit 10. Trends in gross/net slippages



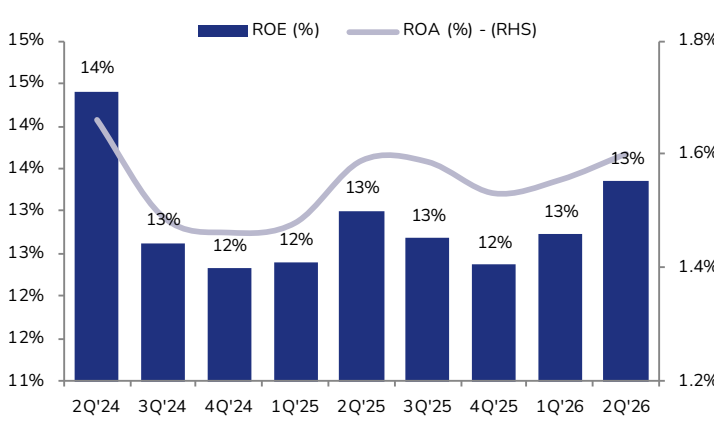
Source: Company, JM Financial

Exhibit 11. Trend in credit cost



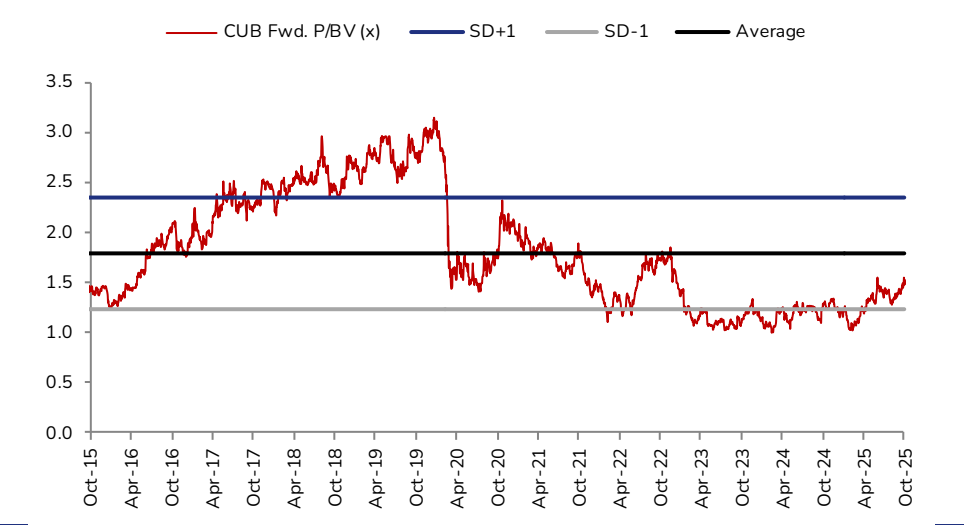
Source: Company, JM Financial

Exhibit 12. Trends in return ratios



Source: Company, JM Financial

Exhibit 13. CUBK one-year forward P/BV



Source: Company, Bloomberg, JM Financial

Exhibit 14. Change in estimates

	New estimates			Old estimates			Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Recommendation	BUY			BUY					
Target price (INR)	285			250			14%		
Assumptions									
YoY loan growth	16.9%	15.9%	15.7%	15.8%	15.4%	15.1%	111 bps	51 bps	52 bps
Net interest margins (calc.)	3.36%	3.36%	3.38%	3.26%	3.23%	3.29%	10 bps	13 bps	9 bps
Other income to assets	1.25%	1.21%	1.20%	1.23%	1.18%	1.19%	2 bps	3 bps	0 bps
Cost to assets	2.16%	2.13%	2.07%	2.12%	2.09%	2.04%	4 bps	5 bps	2 bps
Credit cost	0.41%	0.65%	0.71%	0.43%	0.55%	0.67%	(3) bps	10 bps	4 bps
Outputs (INR bn)									
NII	26.9	31.5	37.1	26.3	30.2	35.5	2%	4%	4%
Other income	10.4	11.7	13.6	10.3	11.4	13.3	1%	3%	2%
Opex	18.0	20.8	23.5	17.7	20.2	22.8	2%	3%	3%
Operating profit	19.3	22.4	27.2	18.8	21.4	26.0	2%	5%	4%
Provisions	2.3	4.3	5.4	2.4	3.6	5.0	-5%	20%	7%
Net Profit	13.5	14.5	17.3	13.1	14.3	16.8	3%	1%	3%
EPS (INR)	18.3	19.5	23.4	17.7	19.3	22.7	3%	1%	3%
ROA (%)	1.62%	1.49%	1.53%	1.57%	1.48%	1.51%	5 bps	1 bps	2 bps
ROE (%)	13.4%	12.8%	13.6%	13.1%	12.6%	13.2%	38 bps	12 bps	35 bps
BVPS	144.2	161.8	182.8	143.7	161.0	181.4	0%	0%	1%

Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss (INR bn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income	21	23	27	31	37
Profit on Investments	0	1	1	1	1
Exchange Income	1	0	0	0	1
Fee & Other Income	6	8	9	11	12
Non-Interest Income	7	9	10	12	14
Total Income	29	32	37	43	51
Operating Expenses	13	15	18	21	23
Pre-provisioning Profits	15	17	19	22	27
Loan-Loss Provisions	3	3	2	4	5
Provisions on Investments	0	0	0	0	0
Others Provisions	0	0	0	0	0
Total Provisions	3	3	2	4	5
PBT	12	14	17	18	22
Tax	2	3	3	4	4
PAT (Pre-Extraordinaries)	10	11	14	14	17
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	10	11	14	14	17
Dividend paid	1	1	1	1	2
Retained Profits	9	10	12	13	16

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Deposits	6.2%	14.1%	17.7%	15.3%	15.3%
Advances	5.7%	14.4%	16.9%	15.9%	15.7%
Total Assets	6.4%	9.6%	14.9%	17.9%	15.9%
NII	-1.8%	9.1%	16.2%	16.9%	17.9%
Non-interest Income	-8.5%	21.1%	15.7%	12.9%	15.7%
Operating Expenses	16.7%	13.9%	17.3%	15.3%	13.0%
Operating Profits	-16.6%	10.7%	15.0%	16.3%	21.2%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions	-55.3%	-8.4%	-12.3%	86.0%	26.5%
Reported PAT	8.3%	10.6%	20.5%	6.8%	20.0%
Yields / Margins (%)					
Interest Spread	2.62%	2.59%	2.74%	2.76%	2.76%
NIM	3.21%	3.24%	3.36%	3.36%	3.38%
Profitability (%)					
Non-IR to Income	25.9%	27.9%	27.9%	27.2%	26.8%
Cost to Income	47.1%	47.8%	48.3%	48.0%	46.3%
ROA	1.48%	1.51%	1.62%	1.49%	1.53%
ROE	12.8%	12.6%	13.4%	12.8%	13.6%
Assets Quality (%)					
Slippages	2.41%	1.83%	1.25%	1.40%	1.50%
Gross NPA	3.99%	3.09%	1.79%	1.77%	1.96%
Net NPAs	1.97%	1.25%	0.66%	0.65%	0.72%
Provision Coverage	51.5%	60.1%	63.5%	64.0%	64.0%
Specific LLP	0.74%	0.52%	0.28%	0.54%	0.60%
Net NPAs / Network	10.7%	6.9%	3.8%	3.8%	4.3%
Capital Adequacy (%)					
Tier I	22.80%	22.70%	22.41%	21.41%	20.96%
CAR	23.84%	23.75%	23.32%	22.18%	21.63%

Source: Company, JM Financial

Balance Sheet (INR bn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	1	1	1	1	1
Reserves & Surplus	83	94	106	119	135
Deposits	557	635	748	862	994
Borrowings	47	22	23	31	52
Other Liabilities	20	25	14	39	37
Total Liabilities	708	776	892	1,052	1,219
Investments	157	173	177	232	272
Net Advances	455	521	609	706	816
Cash & Equivalents	69	53	69	76	89
Fixed Assets	3	3	4	4	5
Other Assets	24	26	32	34	37
Total Assets	708	776	892	1,052	1,219

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	3.09%	3.12%	3.23%	3.24%	3.26%
Other Income / Assets	1.08%	1.21%	1.25%	1.21%	1.20%
Total Income / Assets	4.17%	4.33%	4.47%	4.44%	4.46%
Cost / Assets	1.96%	2.07%	2.16%	2.13%	2.07%
PBP / Assets	2.21%	2.26%	2.31%	2.31%	2.39%
Provisions / Assets	0.42%	0.35%	0.28%	0.44%	0.48%
PBT / Assets	1.79%	1.91%	2.04%	1.87%	1.92%
Tax rate	17.5%	20.7%	20.4%	20.4%	20.4%
ROA	1.48%	1.51%	1.62%	1.49%	1.53%
RoRWAs	2.92%	2.97%	3.16%	2.89%	2.97%
Leverage	8.4	8.2	8.3	8.8	9.0
ROE	12.8%	12.6%	13.4%	12.8%	13.6%

Source: Company, JM Financial

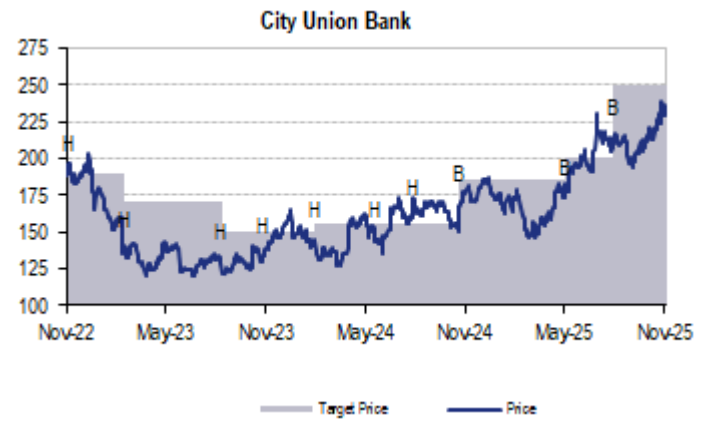
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	0.7	0.7	0.7	0.7	0.7
EPS (INR)	13.7	15.2	18.3	19.5	23.4
EPS (YoY) (%)	8.3%	10.6%	20.5%	6.8%	20.0%
PER (x)	17.2	15.6	12.9	12.1	10.1
BV (INR)	113	128	144	162	183
BV (YoY) (%)	12.6%	12.6%	12.9%	12.2%	13.0%
P/BV (x)	2.08	1.85	1.64	1.46	1.29
DPS (INR)	1.5	2.0	1.8	2.0	2.3
Div. yield (%)	0.6%	0.8%	0.8%	0.8%	1.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
18-Jun-20	Sell	115	
13-Aug-20	Hold	115	0.0
2-Nov-20	Hold	160	39.1
11-Jan-21	Hold	195	21.9
30-May-21	Hold	175	-10.3
8-Aug-21	Hold	175	0.0
14-Nov-21	Hold	190	8.6
5-Feb-22	Hold	185	-2.6
29-May-22	Hold	185	0.0
9-Aug-22	Hold	185	0.0
6-Nov-22	Hold	190	2.7
15-Feb-23	Hold	170	-10.5
13-Aug-23	Hold	150	-11.8
29-Oct-23	Hold	150	0.0
1-Feb-24	Hold	155	3.3
21-May-24	Hold	155	0.0
28-Jul-24	Hold	155	0.0
22-Oct-24	Buy	185	19.4
4-May-25	Buy	200	8.1
31-Jul-25	Buy	250	25.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return $\geq$ 15% over the next twelve months.
ADD	Expected return $\geq$ 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return $\geq$ -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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