

Good Quarter; Growth Momentum Improves & Expected to Sustain!
Est. Vs. Actual for Q1FY26: NII – BEAT; PPOP – BEAT; PAT – BEAT
Changes in Estimates post Q1FY26
FY26E/FY27E: NII: +1.1/+1.8; PPOP: +2.2/+2.6; PAT: +2.7/+3.0
Recommendation Rationale

- **Growth visibility healthy; Momentum to Continue:** CUB's growth engine has started to fire, and the management is confident of the momentum to continue, supported by healthy growth visibility in its core segments. Thus, **the management has indicated that barring any macro uncertainties, CUB will continue to deliver ~15-16% credit growth in FY26.** The bank **does not expect any meaningful impact of the tariffs on its core MSME export-oriented customers.** Currently, the bank's exposure to export-oriented MSMEs is ~Rs 1,200 Cr, of which only 20% exports are to the USA. These customers expect a marginal 2-3% drop in their profitability owing to the imposition of tariffs. Moreover, they have been aiming at diversifying their risk by increasingly focusing on European markets. **The bank is on track to ramp up its retail portfolio with a focus on Home Loans, Affordable Housing, and LAP.** CUB intends to scale this business primarily through its existing branch network (80% contribution) with support from the DSA channel. **We expect CUB to deliver a healthy 15% CAGR credit growth over FY25-28E.**
- **NIMs to be Defended at 3.5% for FY26:** Despite ~70% of CUB's portfolio being floating rate (of which ~48% is EBLR-linked), the management remains confident of defending margins at 3.5% in FY26. The impact of the Jun'25 rate cut would reflect on Q2 margins (expected to range between 3.45-3.5%); however, as the rate actions on deposits reflect in the CoF, NIMs are expected to find support. The bank has reduced its TD rates in Apr'25 and has taken rate action on SA deposits in Jun'25, the benefit of which will reflect meaningfully from H2 onwards. Moreover, the bank had given certain customers loans at discounted rates, and the pass-on of the repo rate cut to these customers would be lower. **We expect a NIM delivery in FY26 to be in line with the guidance, with improvement likely in FY27. Margins are likely to hover between 3.5-3.6% over FY26-28E.**
- **Asset Quality Improvement to Continue:** The management remains confident of asset quality improvement continuing, led by controlled slippages and healthy recoveries. The pace of recoveries is expected to outpace slippages even in FY26. While the bank has not seen any signs of stress emerging in the MSME segment, it will continue to actively monitor the dynamic situation. The management has indicated that CUB will not shy away from decelerating growth in case of asset quality stress. The SMA2 has seen a steady decline and stood at ~1.6% vs 2.2% YoY and flat QoQ. **Thus, with no major asset quality challenges in sight in both the MSME and newly launched Retail Portfolio, we expect credit costs to remain under check at 60bps (+/-5bps) over FY26-28E. PCR is likely to range between 63-65%.**

Sector Outlook: Positive

Company Outlook: We expect CUB's superior RoA delivery on 1.5-1.6% over the medium term to continue supported by (1) Buoyant growth sustaining, (2) Ability to maintain NIMs in a narrow range of 3.5-3.6%, (3) Strong and improving Asset quality, keeping credit costs under control and (4) Gradual improvement in Opex ratios. Near-term challenges on margins would be visible; however, we believe CUB remains well poised to deliver a strong Advances/NII/Earnings growth of 15% each over FY25-28E. Sustainance of growth trends should drive stock performance.

Current Valuation: 1.8x FY27E ABV; Earlier Valuation: 1.5x FY27E ABV

Current TP: Rs 270/share. Earlier TP: Rs 225/share

Recommendation: We maintain our BUY recommendation on the stock.

Alternate BUY Ideas from Our Coverage

DCB Bank (TP – Rs 165); IDFC First Bank (TP – Rs 83)

Financial Performance:

- **Operational Performance:** CUB's advances growth was ahead of our estimates (+16/2% YoY/QoQ) and was led by healthy growth in gold book (+31/5% YoY/QoQ), while MSME segment growth was flat QoQ. Deposits growth also improved to 20/3% YoY/QoQ, led by strong growth in TDs (+24/5% YoY/QoQ). CASA deposits grew by 11% YoY/flatish QoQ. CASA ratio stood at 27.3% vs 29.5/28.5% YoY/QoQ. C-D Ratio improved to 82.2% vs 83.5% QoQ.
- **Financial Performance:** NII grew by 15/4% YoY/QoQ with NIMs contraction lower than expectations at 6bps QoQ with a 7bps drop in CoD partially offsetting the impact of higher decline in yields (-12bps QoQ). NIMs stood at 3.54% vs 3.54/3.6% YoY/QoQ. Non-interest income grew by 27/-3% YoY/QoQ. The bank reported a treasury gain of Rs 64 Cr. Opex growth was controlled (+15/2% YoY/QoQ). C-I Ratio was stable at 48.1% vs 48.2% QoQ. PPOP grew by 21/2% YoY/QoQ. Credit costs declined to 52bps vs 60bps QoQ. PAT grew by 16/6% YoY/QoQ.
- **Asset quality** NNPA continued to improve with GNPA/NNPA at 2.99/1.2% vs 3.09/1.25% QoQ, led by lower slippages during the quarter (slippage ratio of 1.5% vs 2% QoQ)

Key Financials (Standalone)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	625	+4.2	+14.7	607	+3.0
PPOP	451	+2.3	+20.7	425	+6.1
Net Profit	306	+6.2	+15.7	284	+7.7
NNPA (%)	1.2	-5 bps	-67 bps	1.2	-2 bps
RoA (%)	1.6	+2 bps	+4 bps	1.5	+9 bps

Source: Company, Axis Securities Research

(CMP as of 31st July, 2025)

CMP (Rs)	214
Upside /Downside (%)	26%
High/Low (Rs)	233/144
Market cap (Cr)	15,709
Avg. daily vol. (6m) Shrs.	24,31,831
No. of shares (Cr)	74.1

Shareholding (%)

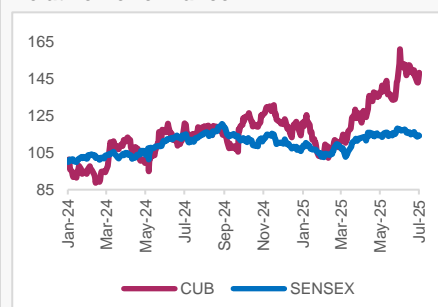
	Dec-24	Mar-25	Jun-25
Promoter	0.0	0.0	0.0
FII's	27.4	28.0	27.4
MFs / UTI	28.6	28.0	28.9
Others	44.0	44.0	43.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	2,598	3,066	3,522
PPOP	1,884	2,263	2,615
Net Profit	1,233	1,493	1,725
EPS (Rs)	16.6	20.1	23.3
ABV (Rs)	134.1	150.4	168.7
P/ABV (x)	1.6	1.4	1.3
RoA (%)	1.5	1.6	1.6
NNPA (%)	1.0	1.0	1.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	+1.1	+1.8
PPOP	+2.2	+2.6
PAT	+2.7	+3.0

Relative Performance


Source: AceEquity, Axis Securities Research

Dnyanada Vaidya

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

Pranav Nawale

Research Associate

Email: pranav.nawale@axissecurities.in

Key Takeaways

- **Deposit growth to mirror credit growth:** In Q1, CUB has seen a strong pick-up in the deposit growth and expects the same to continue. The management has indicated that the deposit growth will be calibrated to match credit growth. CUB intends to maintain a stable LDR at 82-83% on a steady state basis.
- **Branch expansion to continue at usual pace:** CUB intends to continue expanding its branch network, adding 75 branches in FY26. The branch addition would be concentrated in Q2 and Q3, and Opex growth would follow. The management has guided for the C-I Ratio to be maintained at 48-50% in FY26.

Outlook

CUB's growth appears to have picked up, and with healthy growth visibility across its core and new segments, the growth momentum is expected to sustain. The bank will aim at maintaining deposit growth at par with credit growth to maintain a balanced LDR. With CUB delivering better-than-expected growth and the bank's ability to manage NIMs better-than-expected, we revise our NII estimates marginally upwards by 1-2% over FY26-27E. Additionally, factoring in better traction on fee income mirroring business growth, controlled Opex and benign credit costs, we revise our earnings estimates upwards by 2-3% over FY26-27E. We expect CUB's RoA/RoE to range between 1.5-1.6%/12-14% over FY26-28E.

Valuation & Recommendation

We maintain our BUY recommendation on the stock given improved growth visibility and valuation comfort. CUB currently trades at 1.4x FY27E ABV, and we value the stock at 1.8x FY27E ABV to arrive at a target price of Rs 270/share, implying an upside of 26% from the CMP.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a further slowdown or delay in growth pick-up in credit, which could potentially derail our earnings estimates.
- Asset Quality concerns emerging in the core MSME segment are driving credit costs higher and denting our earnings estimates

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY278E	FY26E	FY27E	FY278E	FY26E	FY27E	FY278E
NII	2,598	3,066	3,522	2,571	3,011	-	1.1	1.8	-
PBP	1,884	2,263	2,615	1,843	2,206	-	2.2	2.6	-
PAT	1,233	1,493	1,725	1,201	1,449	-	2.7	3.0	-

Source: Company, Axis Securities Research

Results Review (Standalone)

(Rs Cr)	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ
Net Interest Income	625	545	14.7	600	4.2
Non-Interest Income	244	192	26.9	251	-2.9
Operating expenses	418	364	15.0	411	1.9
Staff Cost	201	174	15.0	197	2.1
Pre-provision profits	451	373	20.7	441	2.3
Provisions and contingencies	70	39	79.5	78	-10.3
PBT	381	334	13.9	363	4.9
Provision for Tax	75	70	7.1	75	0.0
PAT	306	264	15.7	288	6.2
Advances	54,020	46,548	16.1	53,066	1.8
Deposits	65,734	54,857	19.8	63,526	3.5
CASA Deposits	17,951	16,195	10.8	18,119	-0.9
CASA Ratio	27.3	29.5	-221bps	28.5	-121bps
CD Ratio	82.2	84.9	-267bps	83.5	-135bps
Cost-Income ratio (%)	48.1	49.3	-122bps	48.2	-10bps
NIM (%)	3.5	3.5	0bps	3.6	-6bps
RoA (%)	1.6	1.5	4bps	1.5	2bps
RoE (%)	12.9	12.5	40bps	12.6	25bps
Asset Quality					
Gross NPA (%)	3.0	3.9	-89bps	3.1	-10bps
Net NPA (%)	1.2	1.9	-67bps	1.3	-5bps
PCR (%)	84.1	73.0	1108bps	83.2	86bps
Capital Adequacy					
CRAR	23.1	23.6	-48bps	23.8	-65bps
Tier I	22.1	22.6	-46bps	22.7	-61bps
Tier II	1.0	1.0	-2bps	1.1	-4bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	2,316	2,598	3,066	3,522
Non-Interest Income	898	1,049	1,172	1,305
Total Income	3,214	3,647	4,238	4,827
Operating Expenses	1,535	1,763	1,975	2,212
Pre-Provision Profits	1,679	1,884	2,263	2,615
Provisions	262	330	381	440
PBT	1,417	1,554	1,882	2,175
Tax	293	321	389	450
Profit After Tax	1,124	1,233	1,493	1,725

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Equity Share Capital	74	74	74	74
Reserves & Surplus	9,393	10,440	11,709	13,176
Net Worth	9,467	10,514	11,783	13,250
Deposits	63,526	73,511	84,639	97,475
Borrowings	2,169	4,570	5,791	7,109
Other Liabilities	2,461	2,901	3,347	3,859
Total Liabilities	77,623	91,497	1,05,560	1,21,692
Cash & Bank balances	5,291	6,269	7,218	8,313
Investments	17,336	21,311	24,537	28,258
Loans	52,081	60,298	69,630	80,308
Fixed Assets & Others	2,915	3,619	4,176	4,814
Total Assets	77,623	91,497	1,05,560	1,21,692

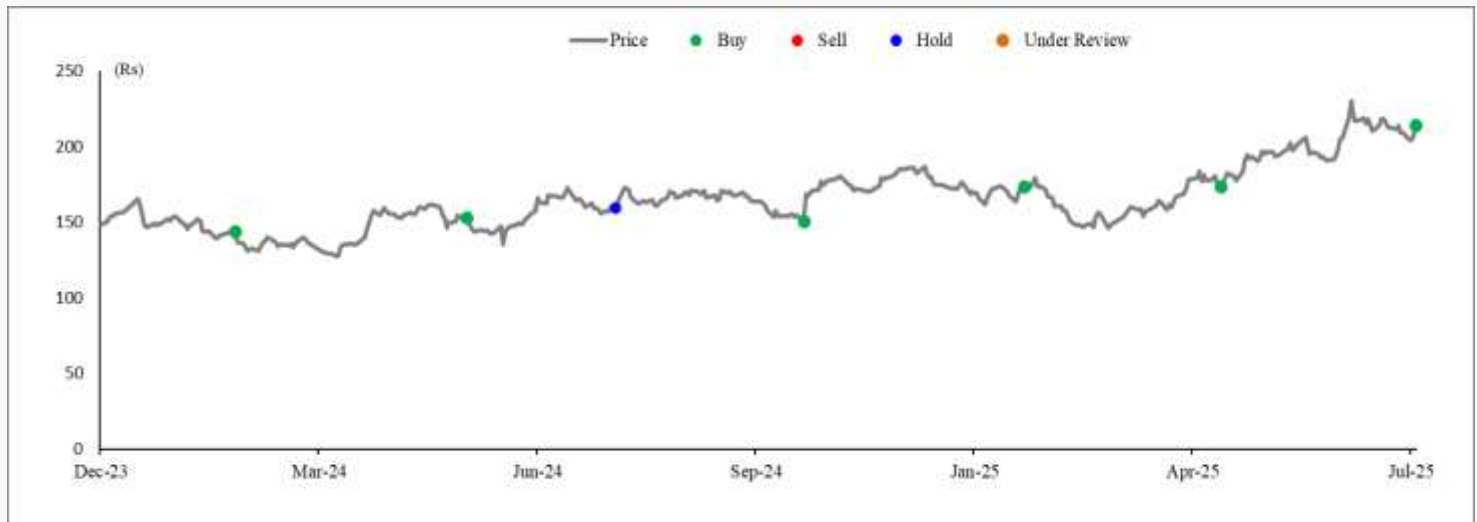
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	15.2	16.6	20.1	23.3
Earnings Growth (%)	11%	10%	21%	16%
BVPS	127.8	141.9	159.0	178.8
Adj. BVPS	118.9	134.1	150.4	168.7
RoA (%)	1.6	1.5	1.6	1.6
ROAE (%)	12.6	12.3	13.9	14.3
P/E (x)	14.1	12.9	10.6	9.2
P/ABV (x)	1.8	1.6	1.4	1.3
OPERATING EFFICIENCY				
NIM (%)	3.6	3.5	3.6	3.6
Cost/Avg. Asset Ratio (%)	2.1	2.1	2.0	1.9
Cost-Income Ratio (%)	47.8	48.4	46.6	45.8
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	14.4	15.8	15.5	15.3
Deposits Growth (%)	14.1	15.7	15.1	15.2
Equity/Assets (%)	12.2	11.5	11.2	10.9
Equity/Loans (%)	18.2	17.4	16.9	16.5
Total Capital Adequacy Ratio (CAR)	23.8	23.1	22.2	21.6
ASSET QUALITY				
Gross NPLs (%)	3.1	2.5	2.5	2.5
Net NPLs (%)	1.3	1.0	0.9	0.9
Coverage Ratio (%)	60.1	62.0	63.0	63.0
Provision/Avg. AUM (%)	0.5	0.6	0.6	0.6
ROAA TREE (on Total Assets)				
Net Interest Income	3.1	3.1	3.1	3.1
Non-Interest Income	1.2	1.2	1.2	1.1
Operating Cost	2.1	2.1	2.0	1.9
Provisions	0.4	0.4	0.4	0.4
Tax	0.3	0.3	0.3	0.3
ROAA	1.6	1.5	1.6	1.6
Leverage (x)	8.0	8.1	8.8	9.1
ROAE	12.6	12.3	13.9	14.3

Source: Company, Axis Securities Research

City Union Bank Price Chart and Recommendation History



Date	Reco	TP	Research
02-Feb-24	BUY	160	Result Update
21-May-24	BUY	170	Result Update
29-Jul-24	HOLD	170	Result Update
22-Oct-24	BUY	180	Result Update
01-Feb-25	BUY	215	Result Update
05-May-25	BUY	225	Result Update
01-Aug-25	BUY	270	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Rajiv Kejriwal, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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HOLD	Between 10% and -10%
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Note: Returns stated in the rating scale are our internal benchmark.