

Strong Quarter; Consistent RoA Delivery of Over 1.5% to Continue!

Est. Vs. Actual for Q2FY26: NII – BEAT; PPOP – BEAT; PAT – BEAT

Changes in Estimates post Q2FY26

FY26E/FY27E/FY28E (in %): NII: +4.6/+3.6/+3.8; PPOP: +2.9/+0.9/+1.3; PAT: +6.9/+1.8/+2.2

Recommendation Rationale

- Growth Visibility Healthy:** CUB's growth engine has started to fire, with credit growth at a decadal high (+18/7% YoY/QoQ in Q2), and the management is confident of the momentum to continue, supported by healthy growth visibility in the MSME and Gold segment, and a gradual ramp-up of the retail segment. Despite robust growth delivery in H1FY26, significantly above industry growth, the management has reiterated its guidance of maintaining credit growth 2-3% over industry growth, which we believe is conservative. However, **the bank is not averse to accelerating the pace of growth without compromising on asset quality. The bank is on track to ramp up its retail portfolio, supported by its branch network (90% mix) and the DSA channel (10% mix), and expects to break even in FY26 and turn RoA accretive from FY27 onwards.** The bank has financed loans of more than Rs 500 Cr so far towards renewable energy and plans to scale the book to Rs 2,500 Cr over the next 24-30 months. **We expect sustained momentum in the Gold and MSME book, along with support from a gradual ramp-up in the retail portfolio to support CUB's healthy credit growth delivery of ~16% CAGR over FY26-28E.**
- NIMs Surprise Positively; H2 NIMs to Move With a Positive Bias:** CUB has been able to improve its NIMs by 9 bps QoQ in Q2, supported by downward repricing of deposits, migration of the gold loans to the fixed rate book, and repaying high-cost borrowings. Going ahead, **the management expects ~45-50% of the overall deposit book (with Rs 17,000-18,000 Cr worth of TDs) to reprice, driving CoF lower.** The headwinds on yields are largely behind, barring any further rate cuts. Thus, **limited pressure on yields, lower CoF with continued deposit repricing, and benefit accruing from CRR cut should drive NIM improvement over H2, keeping NIMs in line with management guidance of current level +/-10 bps. We expect NIMs to settle at ~3.6-3.7% over FY26-28E.**
- No Major Asset Quality Concerns; No Adverse Impact of US Tariffs:** The management has guided for a negative net slippage trend to continue over H2, thereby keeping credit costs under control. CUB has made a provision of Rs 100 Cr during the quarter, anticipating the ECL transition. Furthermore, the bank **does not expect any stress due to the impact of US tariffs on the MSME borrowers, with exposure to US exports in the textile, gems and jewellery, and food processing industry low at 0.27% of the total loan book (at Rs 154 Cr).** Within this pool, exposure to the textile segment is negligible at 0.12%, and interactions with borrowers provide comfort, showing no indications of risk. **With no major asset quality challenges in sight, we expect credit costs to remain under control and range between 50-55 bps over FY26-28E.**

Sector Outlook: Positive

Company Outlook: We expect CUB's superior RoA delivery on 1.5%+ over the medium term to continue, supported by (1) Buoyant growth sustaining with strong growth visibility in its core segments and further support from the retail portfolio ramp-up, (2) Ability to deliver strong NIMs, and (3) Consistently improving Asset quality, keeping credit costs under control. With margins bottoming out and moving with a positive bias alongside benign credit costs with strong asset quality trends persisting, we expect CUB to deliver a strong ~16% CAGR growth over FY26-28E in NII/Earnings.

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

Current TP: Rs 275/share; **Earlier TP:** Rs 270/share

Recommendation: We maintain our BUY recommendation on the stock.

Alternate BUY Ideas from Our Coverage

DCB Bank (TP: Rs 170); IDFC First Bank (TP: Rs 83); Federal Bank (TP: Rs 265)

Financial Performance

- Operational Performance:** CUB's advances growth was ahead of our estimates (+18/7% YoY/QoQ) and was led by healthy growth in the gold book and MSME segment. Deposits growth also improved to 21/6% YoY/QoQ, led by strong growth in TDs (+23/5% YoY/QoQ) and CASA deposits (+16/9% YoY/QoQ). CASA ratio stood at 27.3% vs 29.5/28.5% YoY/QoQ. C-D Ratio stood at 82.8% vs 82.2% QoQ.
- Financial Performance:** NII grew by 14/7% YoY/QoQ with NIMs improving by 9 bps QoQ with a 24 bps drop in CoD adequately offsetting the yield compression of 15 bps QoQ. NIMs stood at 3.63% vs 3.67/3.54% YoY/QoQ. Non-interest income grew by 14/6% YoY/QoQ, driven by healthy fee income growth (+29% YoY). The bank reported a treasury gain of Rs 22 Cr vs Rs 64 Cr QoQ. Opex grew by 20/9% YoY/QoQ, and C-I Ratio inched up to 49.2% vs 47.1/48.1% YoY/QoQ. PPOP grew by 10/4% YoY/QoQ. Credit costs declined YoY/QoQ by 19% each and stood at 41 bps vs 52 bps QoQ. PAT grew by 15/7% YoY/QoQ. RoA improved to 1.6%.
- Asset quality** continued to improve with GNPA/NNPA at 2.42/0.9% vs 2.99/1.2%, led by lower slippages and strong recoveries. Slippage ratio improved to 1.1% vs 1.5% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	667	+6.6	+14.4	626	+6.4
PPOP	471	+4.4	+9.9	422	+11.5
Net Profit	329	+7.4	+15.2	275	+19.7
NNPA (%)	0.9	-30 bps	-72 bps	1.1	-21 bps
RoA (%)	1.6	+5 bps	+1 bps	1.4	+25 bps

Source: Company, Axis Securities Research

(CMP as of 03rd November, 2025)

CMP (Rs)	236
Upside /Downside (%)	17%
High/Low (Rs)	241/144
Market cap (Cr)	17,481
Avg. daily vol. (6m) Shrs.	21,78,266
No. of shares (Cr)	74.1

Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	0.0	0.0	0.0
FII's	28.0	27.4	26.0
MFs / UTI	28.0	28.8	28.7
Others	44.0	43.8	45.3

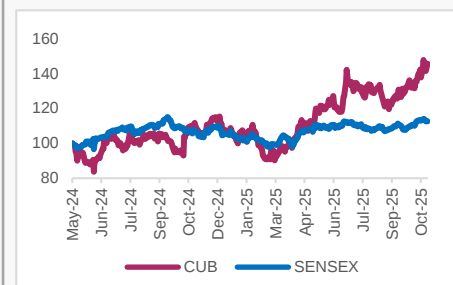
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	2,717	3,177	3,657
PPOP	1,938	2,284	2,648
Net Profit	1,317	1,519	1,763
EPS (Rs)	17.8	20.5	23.8
ABV (Rs)	135.5	152.2	171.5
P/ABV (x)	1.7	1.6	1.4
RoA (%)	1.6	1.6	1.6
NNPA (%)	0.9	0.8	0.8

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	4.6	3.6	3.8
PPOP	2.9	0.9	1.3
PAT	6.9	1.8	2.2

Relative Performance



Source: AceEquity, Axis Securities Research

Results Gallery

[Q1FY26](#)

[Q4FY25](#)

[Q3FY25](#)

[Q2FY25](#)

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Key Takeaways

- **ECL Impact Manageable:** While the management awaits the final guidelines on ECL, its back-of-the-envelope calculations suggest a manageable impact of the transition on credit costs. The bank does not expect any additional provision requirement on the Stage 3/NPA pool. While Stage 2 assets could entail some provision requirement, the management believes the provision reversal from the restructured book running down meaningfully could partially set that off. Moreover, the SMA1+2 book has been declining, and the trend is expected to continue. Thus, the **overall impact of the ECL transition is not expected to be alarming.**
- **Deposit Growth to Mirror Credit Growth:** In Q2, CUB has seen a strong pick-up in the deposit growth and expects the same to continue to mirror credit growth. The bank has set up dedicated teams to focus on CASA accretion, along with enhanced focus on branch-level deposit mobilisation. CUB intends to maintain a stable LDR at 82-83% on a steady state basis. We expect CUB's deposit growth to remain in line with credit growth at ~16% CAGR over FY26-28E.
- **Opex Growth In-line with Business Growth:** While opex growth in Q2 was elevated at 20/9% YoY/QoQ, the management expects it to settle at ~15% going forward, largely in line with business growth. CUB intends to continue expanding its branch network by 75 branches annually. The management has guided for the C-I Ratio to be maintained at 48-50% in FY26.
- **Succession Planning:** With Dr Kamakodi slated to retire in May'26 after completing 15 years as MD & CEO, the bank has invited applications for the post until 7th November, 2025, post which the board will shortlist the candidate. It intends to send the list of shortlisted candidates to the regulator by the end of Dec'25.

Outlook

CUB has seen a strong pick-up in growth over the past few quarters and expects the trend to continue, given healthy growth visibility across its core and a gradual pick-up in the retail segment. 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 3-5% over FY26-28E. Additionally, factoring in better traction on fee income mirroring business growth, controlled Opex, and controlled credit costs, we revise our earnings estimates upwards by ~7% for FY26 and by 1-3% over FY27-28E. We expect CUB's RoA/RoE to range between 1.6%/13-15% over FY26-28E.

Valuation & Recommendation

We maintain our BUY recommendation on the stock, supported by improved growth visibility and strong performance on asset quality. CUB currently trades at 1.6x FY27E ABV, and we value the stock at 1.8x FY27E ABV to arrive at a target price of Rs 275/share, implying an upside of 17% 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, driving credit costs higher and denting our earnings estimates.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	2,717	3,177	3,657	2,598	3,066	3,522	4.6	3.6	3.8
PBP	1,938	2,284	2,648	1,884	2,263	2,615	2.9	0.9	1.3
Provisions	278	369	426	330	381	440	-15.8	-3.3	-3.2
PAT	1,317	1,519	1,763	1,233	1,493	1,725	6.9	1.8	2.2

Source: Company, Axis Securities Research

Results Review (Standalone)

Rs Cr	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ	H1FY26	H1FY25	% YoY
Net Interest Income	667	582	14.4	625	6.6	1,292	1,128	14.6
Non-Interest Income	259	226	14.5	244	6.3	503	418	20.2
Operating expenses	455	381	19.6	418	8.8	873	744	17.3
Staff Cost	224	184	22.2	201	11.8	425	358	18.7
Pre-provision profits	471	428	9.9	451	4.4	922	802	14.9
Provisions and contingencies	57	70	-18.6	70	-18.6	127	109	16.5
PBT	414	358	15.5	381	8.6	795	693	14.7
Provision for Tax	85	73	16.4	75	13.3	160	143	11.9
PAT	329	285	15.2	306	7.4	635	550	15.4
Advances	57,561	48,722	18.1	54,020	6.6	57,561	48,722	18.1
Deposits	69,486	57,369	21.1	65,734	5.7	69,486	57,369	21.1
CASA Deposits	19,537	16,893	15.6	17,951	8.8	19,537	16,893	15.6
CASA Ratio	28.1	29.4	-133bps	27.3	81bps	28.1	29.4	-133bps
CD Ratio	82.8	84.9	-209bps	82.2	66bps	82.8	84.9	-209bps
Cost-Income ratio (%)	49.2	47.1	210bps	48.1	104bps	48.6	48.2	44bps
NIM (%)	3.6	3.7	-4bps	3.5	9bps	3.6	3.6	-2bps
RoA (%)	1.6	1.6	1bps	1.6	5bps	1.6	1.6	3bps
RoE (%)	13.4	12.9	42bps	12.9	50bps	13.1	12.7	41bps
Asset Quality								
Gross NPA (%)	2.4	3.5	-112bps	3.0	-57bps	2.4	3.5	-112bps
Net NPA (%)	0.9	1.6	-72bps	1.2	-30bps	0.9	1.6	-72bps
PCR (%)	82.0	75.0	700bps	82.7	-72bps	82.0	75.0	700bps
Capital Adequacy								
CRAR	21.9	23.0	-112bps	23.1	-124bps	21.9	23.0	-112bps
Tier I	20.7	22.0	-127bps	22.1	-138bps	20.7	22.0	-127bps
Tier II	1.2	1.0	15bps	1.0	14bps	1.2	1.0	15bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	2,316	2,717	3,177	3,657
Non-Interest Income	898	1,048	1,208	1,386
Total Income	3,214	3,765	4,384	5,043
Operating Expenses	1,535	1,826	2,100	2,395
Pre-Provision Profits	1,679	1,938	2,284	2,648
Provisions	262	278	369	426
PBT	1,417	1,661	1,915	2,222
Tax	293	344	396	460
Profit After Tax	1,124	1,317	1,519	1,763

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	10,512	11,804	13,302
Net Worth	9,467	10,586	11,878	13,376
Deposits	63,526	75,022	86,651	1,00,247
Borrowings	2,169	3,264	3,789	4,050
Other Liabilities	2,461	3,005	3,460	3,979
Total Liabilities	77,623	91,877	1,05,778	1,21,652
Cash & Bank balances	5,291	6,773	7,823	9,050
Investments	17,336	19,498	22,087	25,052
Loans	52,081	61,972	71,684	82,738
Fixed Assets & Others	2,915	3,634	4,184	4,812
Total Assets	77,623	91,877	1,05,778	1,21,652

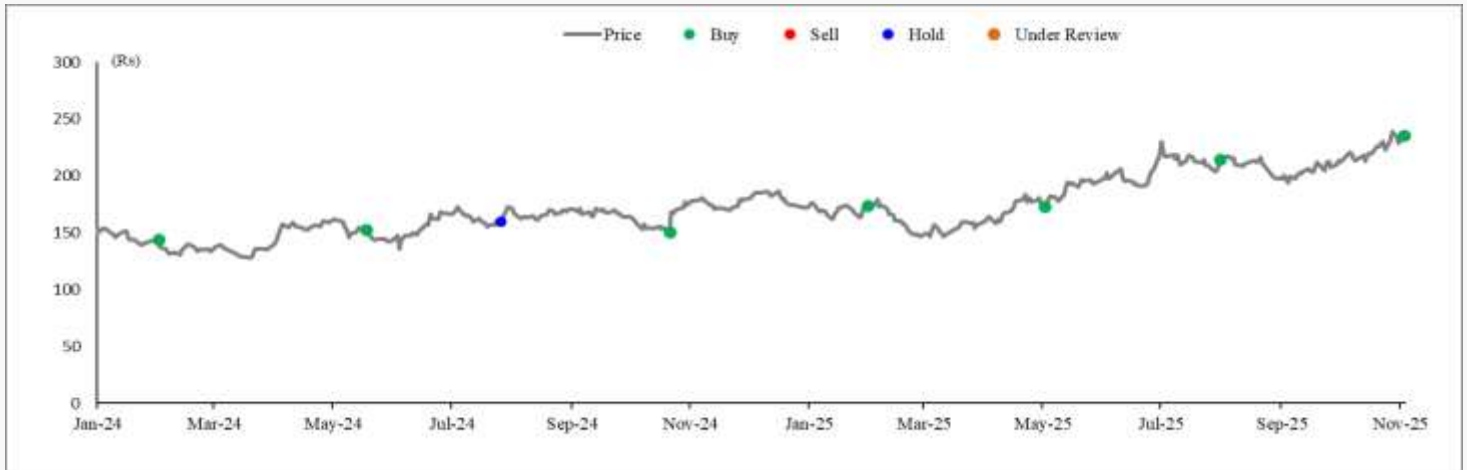
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	15.2	17.8	20.5	23.8
Earnings Growth (%)	11%	17%	15%	16%
BVPS	127.8	142.9	160.3	180.5
Adj. BVPS	118.9	135.5	152.2	171.5
RoA (%)	1.6	1.6	1.6	1.6
ROAE (%)	12.6	13.1	14.1	14.5
P/E (x)	15.6	13.3	11.5	9.9
P/ABV (x)	2.0	1.7	1.6	1.4
OPERATING EFFICIENCY				
NIM (%)	3.6	3.6	3.7	3.7
Cost/Avg. Asset Ratio (%)	2.1	2.2	2.1	2.1
Cost-Income Ratio (%)	47.8	48.5	47.9	47.5
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	14.4	19.0	15.7	15.4
Deposits Growth (%)	14.1	18.1	15.5	15.7
Equity/Assets (%)	12.2	11.5	11.2	11.0
Equity/Loans (%)	18.2	17.1	16.6	16.2
Total Capital Adequacy Ratio (CAR)	23.8	22.9	21.8	21.2
ASSET QUALITY				
Gross NPLs (%)	3.1	2.4	2.3	2.3
Net NPLs (%)	1.3	0.9	0.8	0.8
Coverage Ratio (%)	60.1	63.0	64.0	65.0
Provision/Avg. AUM (%)	0.5	0.5	0.6	0.6
ROAA TREE (on Total Assets)				
Net Interest Income	3.1	3.2	3.2	3.2
Non-Interest Income	1.2	1.2	1.2	1.2
Operating Cost	2.1	2.2	2.1	2.1
Provisions	0.4	0.3	0.4	0.4
Tax	0.3	0.3	0.3	0.3
ROAA	1.6	1.6	1.6	1.6
Leverage (x)	8.0	8.1	8.8	9.0
ROAE	12.6	13.1	14.1	14.5

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
04-Nov-25	BUY	275	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

Note: Returns stated in the rating scale are our internal benchmark.