

**CUBK posted a ~6% beat in earnings with PAT/RoA at Rs2.9bn/1.6%. This was mainly due to healthy margins (up by 13bps QoQ) and other income, partly offset by higher provisions as the bank finally starts to accelerate its otherwise lower PCR (a major irritant). CUBK has also delivered a healthy double-digit growth of 12% YoY/5% QoQ on the back of pick-up seen in its MSME, GL, and Corporate book. This growth has been achieved without any meaningful traction in the retail business – which once picks up, could further accelerate growth. GNPA/NNPA ratio was down to 3.5%/1.6%, which the bank plans to lower further through contained slippages and higher recoveries/w-offs. Factoring in the improving growth trajectory as well as margin and asset quality trajectory, we upgrade CUBK to ADD from Reduce; we revise FY25-27E earnings by 2-5% and raise our TP to Rs170 (vs Rs160), rolling forward on 1.2x Sep-26E ABV. Further re-rating will be conditioned on smooth transformation of the bank into a retail cum SME bank and the management transition.**

**City Union Bank: Financial Snapshot (Standalone)**

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	9,375	10,157	11,133	12,470	14,203
Loan growth (%)	6.7	5.7	11.5	13.0	14.0
NII growth (%)	12.9	(1.8)	10.1	13.7	15.5
NIM (%)	3.6	3.3	3.3	3.4	3.4
PPOP growth (%)	14.0	(16.6)	8.2	16.6	18.5
Adj. EPS (Rs)	12.7	13.7	15.0	16.8	19.2
Adj. EPS growth (%)	23.2	8.3	9.6	12.0	13.9
Adj. BV (Rs)	90.4	104.4	119.0	134.8	152.7
Adj. BVPS growth (%)	13.1	12.6	11.8	11.8	12.0
RoA (%)	1.5	1.5	1.5	1.5	1.5
RoE (%)	13.4	12.8	12.5	12.5	12.8
P/E (x)	11.9	11.0	10.0	9.0	7.9
P/ABV (x)	1.7	1.4	1.3	1.1	1.0

Source: Company, Emkay Research

**Better credit growth and margin delivery after long**

CUBK reported a healthy double-digit credit growth at 12% YoY/5% QoQ, primarily on account of better growth in its core Agri/Non-Agri Gold loan (GL), HL, and corporate loan book. Some pick-up (5% QoQ) was also seen in its traditional MSME loan book following the digi-transformation. Bank is also planning to expand its retail GL book. Margins also saw an uptick of 13bps QoQ to 5.6% in 2Q, mainly due to better growth/loan yields. The management guides to sustain its RoA@1.5%, while gradually building up the retail book – benefit of which should mostly be seen in its growth and RoA over FY25-26E.

**Headline NPA ratio improves and so also the specific PCR**

Fresh slippages were contained at Rs1.8bn/1.7% of loans, which coupled with better recoveries/higher w-offs led to 34bps/25bps QoQ reduction in GNPA/NNPA ratios to 3.5%/1.6%, respectively. The restructured book currently stands at 1.8% of overall loans (vs 2.1% in Q1). The management has indicated that it will now shift its focus on ramping-up its specific PCR, which remains sub-par vs peers at 55%, and has guided for NNPA of ~1.2-1.25% for FY25E.

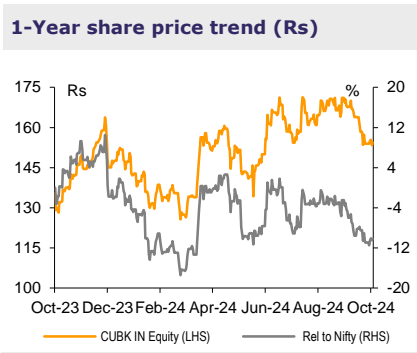
**Upgrade to ADD from Reduce**

Factoring in the improving growth trajectory as well as margin and asset quality trajectory, we revise FY25-27E earnings by 2-5% and raise our TP to Rs170 (vs Rs160), rolling forward on 1.2x Sep-26E ABV. Thus, we upgrade our rating to ADD from Reduce. Further re-rating will be conditioned on smooth transformation of the bank into a retail cum SME bank and the management transition. Key risks: Macro risks reflecting via asset quality deterioration in its core SME book, higher ECL impact, and KMP attrition in its retail banking team.

Target Price – 12M	Sep-25
<b>Change in TP (%)</b>	<b>6.3</b>
Current Reco.	ADD
Previous Reco.	REDUCE
Upside/(Downside) (%)	12.9
CMP (21-Oct-24) (Rs)	150.6

Stock Data	Ticker
52-week High (Rs)	176
52-week Low (Rs)	125
Shares outstanding (mn)	740.7
Market-cap (Rs bn)	112
Market-cap (USD mn)	1,327
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	501.3
ADTV-3M (USD mn)	6.0
Free float (%)	97.0
Nifty-50	24,781
INR/USD	84.1
<b>Shareholding, Sep-24</b>	
Promoters (%)	-
FPIs/MFs (%)	26.0/33.6

Price Performance			
(%)	1M	3M	12M
Absolute	(10.2)	(3.0)	10.7
Rel. to Nifty	(6.6)	(3.9)	(12.7)



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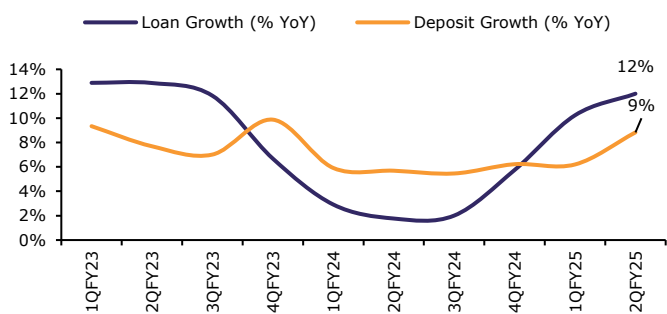
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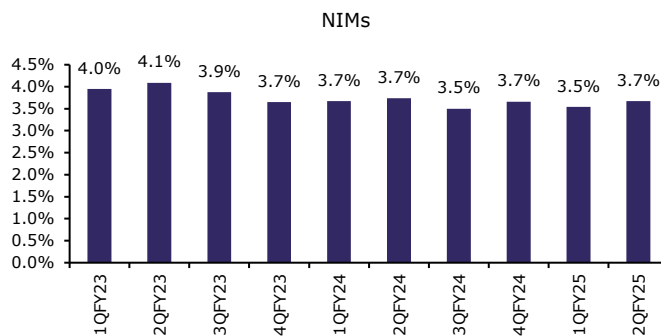
# Story in Charts

**Exhibit 1: Credit growth improves on the back of acceleration in its core book**



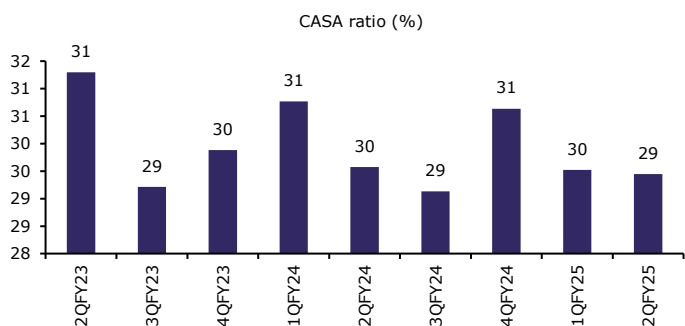
Source: Company, Emkay Research

**Exhibit 2: Margins improve QoQ, led by better growth/higher yields**



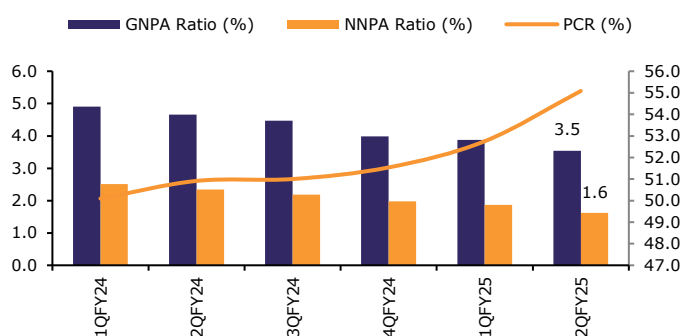
Source: Company, Emkay Research

**Exhibit 3: CASA cannibalization continues**



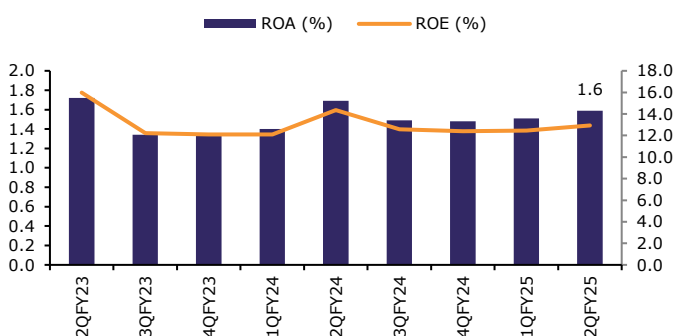
Source: Company, Emkay Research

**Exhibit 4: NPA ratio improves and so also the PCR**



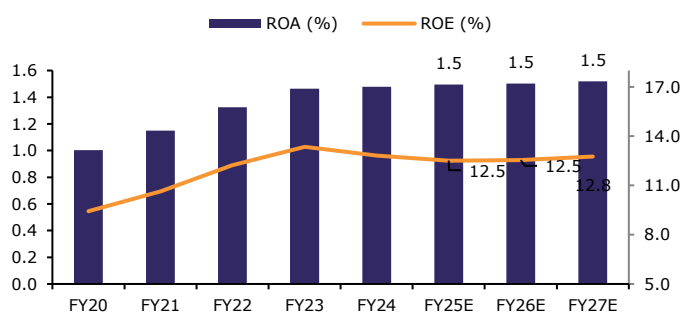
Source: Company, Emkay Research

**Exhibit 5: Bank continues to deliver healthy RoA around 1.6%**



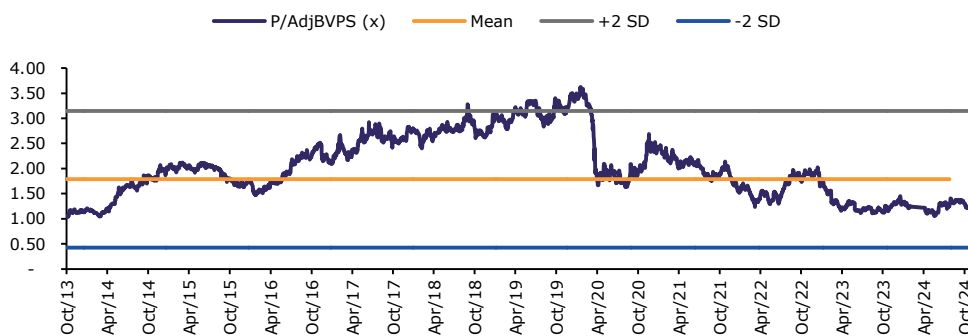
Source: Emkay Research

**Exhibit 6: RoAs to remain range bound at ~1.4-1.5% amid rising operational cost**



Source: Emkay Research

**Exhibit 7: The bank has stabilized after a sharp fall seen since Covid, and is set to recover as growth, margin, and RoA trajectory improves**



Source: Bloomberg, Emkay Research

**Exhibit 8: Actuals Vs Estimates (Q2FY25)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,088	7,569	7,821	7%	3%	Higher other income and better margins led to beat in Net income
PPOP	4,282	3,777	3,935	13%	9%	Better Net income led to a strong beat
PAT	2,852	2,702	2,722	6%	5%	Better PPOP partially offset by higher LLP, led to a beat in PAT

Source: Company, Emkay Research

**Exhibit 9: Quarterly Summary**

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	13,040	13,262	13,741	13,886	14,339	10	3	52,698	58,289	11
Interest Exp	7,656	8,103	8,275	8,435	8,515	11	1	31,471	34,907	11
Net Interest Income	5,384	5,159	5,466	5,452	5,825	8	7	21,227	23,382	10
Global NIMs (reported)	3.74	3.50	3.66	3.54	3.67	-7bps	13bps	3.26	3.30	4bps
Non-interest Income	1,821	1,929	1,752	1,921	2,263	24	18	7,417	8,523	15
Operating Expenses	3,339	3,448	3,700	3,638	3,806	14	5	13,484	15,494	15
Pre Provisioning Profit	3,866	3,640	3,518	3,735	4,282	11	15	15,160	16,411	8
Provision & Contingencies	560	460	320	390	700	25	79	2,860	2,667	-7
PBT	3,306	3,180	3,198	3,345	3,582	8	7	12,300	13,744	12
Income Tax Expense (Gain)	500	650	650	700	730	46	4	2,150	2,611	21
Net Profit/(Loss)	2,806	2,530	2,548	2,645	2,852	2	8	10,150	11,133	10
Gross NPA (%)	4.66	4.47	3.99	3.88	3.54	-112bps	-34bps	3.99	3.55	-44bps
Net NPA (%)	2.34	2.19	1.97	1.87	1.62	-72bps	-25bps	1.97	1.52	-45bps
Deposits (Rs bn)	527	527	557	549	574	9	5	557	616	11
Net Advances (Rs bn)	427	430	455	456	478	12	5	455	508	11

Source: Company, Emkay Research

**Exhibit 10: Revision in estimates**

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	30,846	31,905	3.4%	35,242	36,495	3.6%	40,217	41,958	4.3%
PPOP	15,416	16,411	6.5%	18,076	19,128	5.8%	21,290	22,664	6.5%
PAT	11,040	11,133	0.8%	12,241	12,470	1.9%	13,485	14,203	5.3%
EPS (Rs)	14.9	15.0	0.8%	16.5	16.8	1.9%	18.2	19.2	5.3%
BV (Rs)	126.6	126.8	0.1%	141.2	141.7	0.4%	157.1	158.7	1.0%

Source: Company, Emkay Research

**Exhibit 11: Key Assumptions**

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	5.7	11.5	13.0	14.0
Deposit Growth	6.2	10.7	13.6	14.0
NIM	3.3	3.3	3.4	3.4
GNPA	4.0	3.5	3.2	3.0
Credit Cost	0.7	0.5	0.7	0.8

Source: Emkay Research

## Exhibit 12: Key ratios and trends

(Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>Loans</b>	<b>419</b>	<b>421</b>	<b>431</b>	<b>414</b>	<b>427</b>	<b>430</b>	<b>455</b>	<b>456</b>	<b>478</b>
Loans – growth YoY (%)	12.9	11.8	6.7	2.9	1.8	2.0	5.7	10.2	12.0
Loans – growth QoQ (%)	4.3	0.6	2.2	(3.9)	3.1	0.8	5.9	0.2	4.8
<b>Composition (%)</b>									
- Corporate	17.3	16.0	16.1	16.3	16.6	16.4	14.3	15.0	15.3
- SME/BB	44.2	44.5	43.8	43.5	42.9	41.7	38.8	38.3	38.5
- Retail	21.1	21.6	22.4	23.7	25.6	27.7	30.6	30.1	29.2
- Agri	17.4	17.9	17.7	16.5	15.0	14.1	16.2	16.6	17.1
<b>Liability Profile</b>									
<b>Deposit (Rs bn)</b>	<b>499</b>	<b>500</b>	<b>524</b>	<b>517</b>	<b>527</b>	<b>527</b>	<b>557</b>	<b>549</b>	<b>574</b>
- Growth YoY (%)	7.7	7.0	9.9	5.9	5.7	5.5	6.2	6.2	8.8
- Growth QoQ (%)	2.3	0.2	4.8	(1.4)	2.1	0.0	5.6	(1.4)	4.6
CASA (%)	31.3	29.2	29.9	30.8	29.6	29.1	30.6	29.5	29.4
CA (%)	8.7	8.0	9.1	9.2	9.0	8.3	9.9	8.4	8.9
SA (%)	22.6	21.2	20.8	21.5	20.5	20.8	20.8	21.1	20.6
<b>Branches (no. of)</b>	<b>727</b>	<b>752</b>	<b>752</b>	<b>752</b>	<b>752</b>	<b>772</b>	<b>800</b>	<b>800</b>	<b>812</b>
NIM (%)	4.09	3.88	3.65	3.67	3.74	3.50	3.66	3.54	3.67
<b>Asset Quality</b>									
GNPA (%)	4.4	4.6	4.4	4.9	4.7	4.5	4.0	3.9	3.5
NNPA (%)	2.7	2.7	2.4	2.5	2.3	2.2	2.0	1.9	1.6
PCR (%)	39.4	43.5	47.0	50.1	50.9	51.0	51.5	52.8	55.1
<b>Capital Adequacy (%)</b>									
<b>CAR</b>	<b>20.1</b>	<b>20.5</b>	<b>22.3</b>	<b>23.0</b>	<b>22.2</b>	<b>21.9</b>	<b>23.8</b>	<b>23.6</b>	<b>23.0</b>
<b>ROE Decomposition (%)</b>									
<b>NII</b>	<b>3.8</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.3</b>	<b>3.5</b>
Other Income	0.9	1.2	1.1	1.0	1.0	1.1	0.9	1.1	1.2
Treasury	0.3	0.2	0.1	0.3	0.2	0.2	0.2	0.1	0.1
Opex	1.9	1.9	1.9	2.0	2.2	2.2	2.3	2.2	2.3
PPOP	3.1	3.3	2.7	2.7	2.5	2.3	2.2	2.3	2.6
Provisioning Cost	0.7	1.5	1.0	1.0	0.4	0.3	0.2	0.2	0.4
PBT	2.4	1.8	1.7	1.7	2.1	2.0	2.0	2.0	2.2
<b>ROA</b>	<b>1.9</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>
Leverage (x)	8.6	8.5	8.4	8.1	7.9	7.9	7.8	7.8	7.6
<b>ROE</b>	<b>16.0</b>	<b>12.2</b>	<b>11.9</b>	<b>12.0</b>	<b>14.4</b>	<b>12.6</b>	<b>12.3</b>	<b>12.4</b>	<b>13.0</b>

Source: Company, Emkay Research

## City Union Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	47,143	52,706	58,289	63,528	70,455
Interest Expense	25,515	31,471	34,907	36,946	39,761
<b>Net interest income</b>	<b>21,628</b>	<b>21,235</b>	<b>23,382</b>	<b>26,582</b>	<b>30,695</b>
NII growth (%)	12.9	(1.8)	10.1	13.7	15.5
Other income	8,104	7,416	8,523	9,913	11,263
<b>Total Income</b>	<b>29,732</b>	<b>28,651</b>	<b>31,905</b>	<b>36,495</b>	<b>41,958</b>
Operating expenses	11,552	13,484	15,494	17,366	19,293
<b>PPOP</b>	<b>18,180</b>	<b>15,167</b>	<b>16,411</b>	<b>19,128</b>	<b>22,664</b>
PPOP growth (%)	14.0	(16.6)	8.2	16.6	18.5
<b>Core PPOP</b>	<b>18,103</b>	<b>14,841</b>	<b>15,955</b>	<b>18,443</b>	<b>21,773</b>
Provisions & contingencies	6,405	2,860	2,667	3,637	4,910
<b>PBT</b>	<b>11,775</b>	<b>12,307</b>	<b>13,744</b>	<b>15,491</b>	<b>17,754</b>
Extraordinary items	0	0	0	0	0
Tax expense	2,400	2,150	2,611	3,021	3,551
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>9,375</b>	<b>10,157</b>	<b>11,133</b>	<b>12,470</b>	<b>14,203</b>
PAT growth (%)	23.3	8.3	9.6	12.0	13.9
<b>Adjusted PAT</b>	<b>9,375</b>	<b>10,157</b>	<b>11,133</b>	<b>12,470</b>	<b>14,203</b>
<b>Diluted EPS (Rs)</b>	<b>12.5</b>	<b>13.6</b>	<b>14.9</b>	<b>16.7</b>	<b>19.0</b>
Diluted EPS growth (%)	23.2	8.3	9.6	12.0	13.9
<b>DPS (Rs)</b>	<b>1.0</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.2</b>
<b>Dividend payout (%)</b>	<b>7.9</b>	<b>10.9</b>	<b>11.3</b>	<b>11.3</b>	<b>11.2</b>
Effective tax rate (%)	20.4	17.5	19.0	19.5	20.0
Net interest margins (%)	3.6	3.3	3.3	3.4	3.4
Cost-income ratio (%)	38.9	47.1	48.6	47.6	46.0
Shares outstanding (mn)	740.4	740.7	740.7	740.7	740.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Asset quality</b>					
Gross NPLs	19,200.9	18,542.9	18,382.2	18,850.8	19,985.7
Net NPLs	10,176.0	8,986.1	7,720.5	6,786.3	5,995.7
GNPA ratio (%)	4.4	4.0	3.5	3.2	3.0
NNPA ratio (%)	2.4	2.0	1.5	1.2	0.9
Provision coverage (%)	47.0	51.5	58.0	64.0	70.0
Gross slippages	13,290.3	10,135.0	8,033.1	9,370.3	11,349.7
Gross slippage ratio (%)	3.2	2.3	1.6	1.6	1.7
LLP ratio (%)	1.5	0.5	0.5	0.7	0.8
NNPA to networth (%)	13.1	10.3	8.0	6.3	4.9
<b>Capital adequacy</b>					
Total CAR (%)	22.3	23.8	23.8	23.1	22.6
Tier-1 (%)	21.3	22.8	22.9	22.3	21.9
CET-1 (%)	21.3	22.8	22.8	22.2	21.9
RWA-to-Total Assets (%)	50.7	50.4	51.0	52.0	53.0
<b>Miscellaneous</b>					
Total income growth (%)	13.6	8.8	11.1	9.9	11.3
Opex growth (%)	6.9	16.7	14.9	12.1	11.1
Core PPOP growth (%)	18.1	(18.0)	7.5	15.6	18.1
PPOP margin (%)	32.9	25.2	24.6	26.0	27.7
PAT/PPOP (%)	51.6	67.0	67.8	65.2	62.7
LLP-to-Core PPOP (%)	35.4	19.3	16.7	19.7	22.6
Yield on advances (%)	9.4	9.6	9.8	9.5	9.3
Cost of funds (%)	4.6	5.4	5.5	5.3	5.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	740	741	741	741	741
Reserves & surplus	73,832	83,274	93,147	104,210	116,821
<b>Net worth</b>	<b>74,572</b>	<b>84,014</b>	<b>93,888</b>	<b>104,951</b>	<b>117,562</b>
Deposits	523,979	556,567	616,084	699,926	798,155
Borrowings	46,881	47,242	40,155	38,148	36,240
<b>Interest bearing liab.</b>	<b>570,860</b>	<b>603,808</b>	<b>656,239</b>	<b>738,073</b>	<b>834,395</b>
<b>Other liabilities &amp; prov.</b>	<b>20,514</b>	<b>20,436</b>	<b>31,313</b>	<b>36,951</b>	<b>37,832</b>
<b>Total liabilities &amp; equity</b>	<b>665,946</b>	<b>708,259</b>	<b>781,440</b>	<b>879,975</b>	<b>989,789</b>
Net advances	430,533	455,257	507,606	573,578	653,642
Investments	143,326	156,641	168,911	189,877	210,372
Cash, other balances	33,024	46,154	48,462	50,885	53,429
<b>Interest earning assets</b>	<b>640,352</b>	<b>681,333</b>	<b>751,984</b>	<b>848,333</b>	<b>955,798</b>
Fixed assets	2,393	2,704	3,487	3,914	4,395
Other assets	23,200	24,221	25,969	27,727	29,597
<b>Total assets</b>	<b>665,946</b>	<b>708,259</b>	<b>781,440</b>	<b>879,975</b>	<b>989,789</b>
BVPS (Rs)	100.7	113.4	126.8	141.7	158.7
Adj. BVPS (INR)	90.4	104.4	119.0	134.8	152.7
Gross advances	439,558	464,814	518,268	585,642	667,632
Credit to deposit (%)	82.2	81.8	82.4	81.9	81.9
CASA ratio (%)	29.9	30.6	30.4	30.8	31.4
Cost of deposits (%)	4.6	5.4	5.5	5.3	5.1
Loans-to-Assets (%)	64.6	64.3	65.0	65.2	66.0
Net advances growth (%)	6.7	5.7	11.5	13.0	14.0
Deposit growth (%)	9.9	6.2	10.7	13.6	14.0
Book value growth (%)	13.1	12.6	11.8	11.8	12.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	11.9	11.0	10.0	9.0	7.9
P/B (x)	1.5	1.3	1.2	1.1	1.0
P/ABV (x)	1.7	1.4	1.3	1.1	1.0
P/PPOP (x)	6.1	7.4	6.8	5.8	4.9
Dividend yield (%)	0.7	1.0	1.1	1.3	1.4
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.4	3.1	3.1	3.2	3.3
Other income	1.3	1.1	1.1	1.2	1.2
Fee income	1.3	1.0	1.1	1.1	1.1
Opex	1.8	2.0	2.1	2.1	2.1
<b>PPOP</b>	<b>2.8</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
Core PPOP	2.8	2.1	2.1	2.2	2.3
Provisions	1.0	0.4	0.4	0.4	0.5
Tax expense	0.4	0.3	0.4	0.4	0.4
<b>RoA (%)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
Leverage ratio (x)	9.1	8.7	8.4	8.4	8.4
<b>RoE (%)</b>	<b>13.4</b>	<b>12.8</b>	<b>12.5</b>	<b>12.5</b>	<b>12.8</b>
<b>Quarterly data</b>					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	5,384	5,159	5,466	5,452	5,825
NIM (%)	3.7	3.5	3.7	3.5	3.7
PPOP	3,866	3,640	3,518	3,735	4,282
PAT	2,806	2,530	2,548	2,645	2,852
EPS (Rs)	3.79	3.42	3.44	3.57	3.24

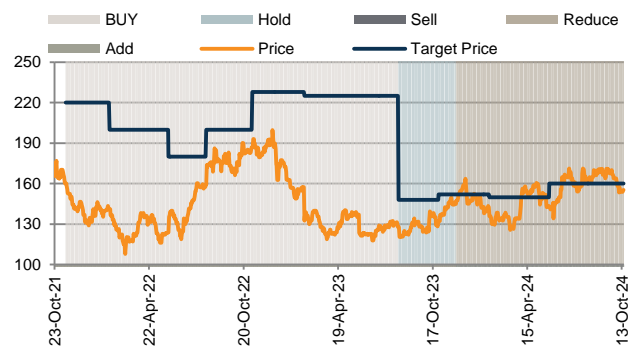
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-May-24	143	160	Reduce	Anand Dama
21-May-24	144	150	Reduce	Anand Dama
02-Feb-24	136	150	Reduce	Anand Dama
30-Nov-23	145	152	Reduce	Anand Dama
28-Oct-23	132	152	Hold	Anand Dama
12-Oct-23	138	148	Hold	Anand Dama
12-Aug-23	128	148	Hold	Anand Dama
09-Mar-23	138	225	Buy	Anand Dama
13-Feb-23	133	225	Buy	Anand Dama
05-Nov-22	187	228	Buy	Anand Dama
09-Aug-22	159	200	Buy	Anand Dama
29-May-22	124	180	Buy	Anand Dama
05-Feb-22	141	200	Buy	Anand Dama
13-Nov-21	160	220	Buy	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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