City Union Bank (CITUNI)

ICICI Direct

CMP: ₹ 299 | Target: ₹ 320 (7%) | Target Period: 12 months | HOLD

February 4, 2026

Resilient performance on margins and business growth…

About the stock: City Union Bank is an old private sector bank with focus on MSME and agri loans that form ~56% of overall advances.

- Strong presence in South India with 747 out of total 901 branches
- Advance comprises of MSME (40%) and Agri (16%) segment. Diversifying focus towards other retail segment – home loan, personal loan etc.

Q3FY26 performance: City Union Bank reported a healthy Q3FY26 performance, with PAT rising 16% YoY to ₹332 crore, supported by strong business momentum and margin expansion. Advances grew 21% YoY to ₹60,892 crore, driven by sustained traction in core MSME and gold loans, while deposits increased 21% YoY to ₹70,516 crore, aided by healthy CASA accretion, with CD ratio at ~86%. NII growth remained robust, with NIMs expanding sharply by 26 bps QoQ to 3.89%, led by deposit repricing, higher share of fixed-rate gold loans and CRR benefit. Provisions increased 21% YoY to ₹181 crore, as the bank continued to build buffers with PCR strengthening to 83%. Asset quality improved further, with GNPA/NNPA declining to 2.17%/0.78% (vs. 2.42%/0.9% in Q2FY26).

Investment Rationale

- **Sustained growth with improving balance-sheet quality**: Healthy business momentum continued in Q3, with advances rising 21% YoY (7% QoQ), led by core MSME and gold loan portfolio. Non-agri gold loans surged 56% YoY (13% QoQ) while agri gold loans moderated, total share of gold loans stands at 28% (vs. 26% in Q3FY25), while MSME lending continued to anchor growth. Deposit growth remained robust at 21% YoY, supported by 19% YoY growth in CASA, while keeping CD ratio elevated at ~86%. Management reiterated its guidance for mid-to-high teen credit growth. Overall, we expect ~17% CAGR in advances over FY26-28E, aided by sustained demand in MSME and gold segment.

- **Margins expanded along with benign asset quality**: Margins expanded sharply in Q3, with NIM rising 26 bps QoQ, driven primarily by deposit repricing benefit, higher share of fixed-rate gold loans, and CRR-related tailwinds. Management expects NIM to remain stable within a ±10 bps band, aided by further repricing of deposits and incremental momentum in gold loans. Asset quality continued to improve with slippages at ~1.3%, coupled with higher write-off and recoveries. Further, GNPA/NNPA declined to 2.17%/0.78% and PCR improved to 83% (vs. 77% YoY). With SMA trends improving and RoA guided to remain at ~1.5%+, earnings visibility remains healthy with scope for gradual improvement as operating leverage kicks in.

Rating and Target Price

- Management guidance of mid-to-high teen credit growth, stable NIMs and sustained RoA at ~1.5%+ gives confidence in medium-term outlook.

- However, we remain mindful of the ongoing leadership transition, which could introduce execution uncertainty in the near term, along with the recent run-up in the stock price, which limits further upside. Hence, we assign multiple at ~1.7x FY28E BV and thus assign target price of ₹320. Downgrade rating to HOLD.

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	2163	2123	2316	7%	2855	3384	3919	19%
PPP	1818	1517	1679	2%	1995	2335	2666	17%
PAT	937	1016	1124	14%	1349	1518	1692	15%
BV (₹)	99.7	112.3	125.9		143.4	163.6	186.1	
ABV (₹)	86.0	100.0	116.9		137.4	158.7	180.4	
P/ABV	3.5	3.0	2.6		2.2	1.9	1.7	
P/BV	3.0	2.7	2.4		2.1	1.8	1.6	
P/E	23.6	21.8	19.7		16.4	14.6	13.1	
RoA	1.5	1.6	1.6		1.7	1.7	1.6	
RoE	10.6	13.8	13.6		14.5	14.3	14.0	

Source: Company, ICICI Direct Research

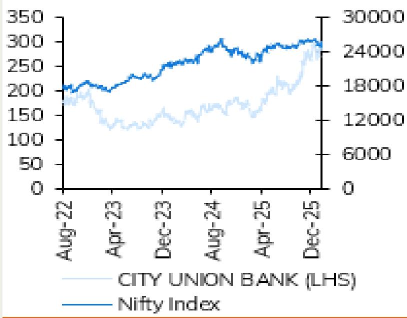
Particulars

Particulars	Amount
Market Capitalisation	₹ 22,357 crore
52 week H/L	324 / 143
Networth	₹ 9,926 crore
Face value	1
DII Holding (%)	40.2
FII Holding (%)	23.5

Shareholding Pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	-	-	-	-
FII	28.0	27.4	26.0	23.5
DII	33.0	35.2	36.8	40.2
Others	39.0	37.4	37.2	36.3

Price Chart



Key Risks

(i) Slower business growth or decline in asset quality

(ii) Leadership transition

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Result Update

ICICI Securities – Retail Equity Research

Concall Highlights and Outlook

Credit and deposit growth

- Advances grew 21% YoY (5.8% QoQ) to ₹60,892 crore, led by gold and MSME segment, while deposits rose 21% YoY to ₹70,516 crore, driven by 21.7% YoY rise in term deposit.
- Management guided for mid-to-high teen growth, focus remains on core MSME, gold loans and secured retail segment
- Average CD ratio at ~86%; management comfort band indicated at ~85–86%.
- Rate structure of loan book: Management shared broad split: ~48% EBLR, ~17% MCLR, ~32% fixed-rate (primarily gold loans).
- Gold loan tenure / repricing: Non-agri gold loans are typically ~12 months (repricing possible on rollover); agri gold loans are ~18–24 months.
- LTV: At origination, LTV is ~65%; including one-year interest it is ~72–73%; on-book average LTV is lower (~mid-50s) given gold price appreciation
- Share of gold loan stands at ~28% (vs. 26% YoY)
- Yields improved 7bps QoQ to 9.73%, Cost of funds improved 15bps QoQ

Margins

- NIM expanded to 3.89% (vs 3.63% in Q2FY26) owing to:
  - Deposit repricing benefit
  - Higher share of fixed rate gold loans
  - Benefits of CRR and incremental CD ratio
- Management guides NIMs for Q4 to remain range bound around these levels ±10 bps

Asset quality

- PCR (with technical write-offs) stood at 83%; improved from 77% YoY.
- For Q3:
  - Slippages ~₹193 crore (vs 156.5 crore in Q2FY26)
  - Total recoveries ~₹219 crore (₹164 crore from live NPAs + ₹55 crore from technical write-off recoveries)
- GNPA/NNPA declining to 2.17%/0.78% (vs. 2.42%/0.9% in Q2FY26)
- SMA metrics improved materially:
  - Total SMA (0+1+2) down to ~3.68% (vs ~5.06% in Q2).
  - SMA-2 at ~0.95% (vs 1.34% in Q2; 1.59% in Q1).

Other updates

- Bank has started its MD & CEO succession process. Last date for receipt of applications for MD & CEO role was 7 Nov, 2025. Board has shared the shortlisted candidates with Reserve Bank of India and awaits approvals/next steps for succession.
- Management indicated limited impact of new labour code as benefits are already calculated on basic+DA; only a minor gratuity-related impact was expected, and they mentioned having taken a small provision (~₹2 crore) as a prudence measure.
- No incremental ECL provision in Q3; management will assess requirement based on evolving clarity and portfolio indicators.

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	752.2	587.7	28.0	666.5	12.8	Strong NII growth owing to margin expansion and higher CD ratio
NIM (%)	3.89	3.58	31 bps	3.63	26 bps	Largely aided to deposit repricing and higher fixed rate gold loan mix
Other Income	245.3	228.4	7.4	259.1	-5.3	
Net Total Income	997.5	816.1	22.2	925.7	7.8	
Staff cost	230.2	178.5	29.0	224.4	2.6	Opex grew YoY amid building distribution and tech
Other Operating Expenses	254.1	201.6	26.1	230.7	10.1	
PPP	513.2	436.0	17.7	470.6	9.0	
Provision	96.0	75.0	28.0	57.0	68.4	Higher standard provisioning and PCR increased to 83%
PBT	417.2	361.0	15.6	413.6	0.9	
Tax Outgo	85.0	75.0	13.3	85.0	0.0	
PAT	332.2	286.0	16.2	328.6	1.1	Margin expansion offset by higher provisioning
Key Metrics						
GNPA	1,320.0	1,725.5	-23.5	1,393.2	-5.3	GNPA ratio improved 25 bps QoQ to 2.17%
NNPA	469.3	775.0	-39.4	512.9	-8.5	
Advances	60,892.0	50,409.3	20.8	57,561.0	5.8	Led by gold and MSME growth
Deposits	70,516.0	52,726.4	33.7	69,486.0	1.5	CASA growth at 19% YoY

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	5,834.0	6,756.1	7,824.0	9,021.6
Interest Expended	3,518.3	3,900.9	4,440.4	5,102.3
Net Interest Income	2,315.7	2,855.2	3,383.6	3,919.3
growth (%)	9.1	23.3	18.5	15.8
Non Interest Income	898.1	1,013.1	1,082.1	1,159.4
Net Income	3,213.8	3,868.3	4,465.7	5,078.7
Staff cost	733.0	887.4	1,047.5	1,227.6
Other Operating expense	802.2	986.3	1,083.5	1,185.4
Operating profit	1,678.6	1,994.6	2,334.7	2,665.7
Provisions	262.0	302.3	413.0	523.4
Taxes	293.0	343.5	403.6	449.9
Net Profit	1,123.6	1,348.7	1,518.2	1,692.4
growth (%)	10.6	20.0	12.6	11.5
EPS (₹)	15.2	18.2	20.5	22.8

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of Equity Shares	74.1	74.1	74.1	74.1
EPS (₹)	15.2	18.2	20.5	22.8
BV (₹)	125.9	143.4	163.6	186.1
ABV (₹)	116.9	137.4	158.7	180.4
P/E	19.7	16.4	14.6	13.1
P/BV	2.4	2.1	1.8	1.6
P/ABV	2.6	2.2	1.9	1.7
Yields & Margins (%)				
Net Interest Margins	3.3	3.6	3.7	3.7
Yield on assets	8.3	8.4	8.4	8.5
Avg. cost on funds	5.6	5.5	5.4	5.4
Yield on average advances	9.6	9.4	9.4	9.4
Avg. Cost of Deposits	4.9	5.3	5.2	5.2
Quality and Efficiency (%)				
Cost to income ratio	47.6	48.3	47.6	47.4
Credit/Deposit ratio	82.0	85.1	85.8	86.4
GNPA	3.1	2.1	1.6	1.4
NNPA	1.3	0.7	0.5	0.5
RoE	13.6	14.5	14.3	14.0
RoA	1.6	1.7	1.7	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	74.0	74.0	74.0	74.0
Reserves and Surplus	9,392.5	10,689.2	12,183.9	13,852.9
Networth	9,466.6	10,763.2	12,258.0	13,927.0
Deposits	63,526.0	73,658.0	84,757.6	97,548.0
Borrowings	2,169.4	2,475.9	2,764.6	3,087.2
Other Liabilities & Provisions	2,461.2	2,618.6	2,821.9	3,042.4
Total	77,623.2	89,515.6	102,602.1	117,604.6
Applications of Funds				
Fixed Assets	322.3	361.1	410.7	474.1
Investments	17,336.1	19,074.1	20,987.2	23,092.9
Advances	52,081.3	62,674.6	72,700.5	84,330.1
Other Assets	2,592.9	1,755.1	2,459.1	3,231.7
Cash with RBI & call money	5,290.5	5,650.8	6,044.6	6,475.9
Total	77,623.2	89,515.6	102,602.1	117,604.6

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	9.6	15.3	14.6	14.6
Advances	14.4	20.3	16.0	16.0
Deposit	14.1	15.9	15.1	15.1
Total Income	12.0	15.4	14.6	14.3
Net interest income	9.1	23.3	18.5	15.8
Operating expenses	13.9	22.1	13.7	13.2
Operating profit	10.7	18.8	17.1	14.2
Net profit	10.6	20.0	12.6	11.5
Net worth	12.2	13.9	14.1	13.8
EPS	15.2	18.2	20.5	22.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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