

CMP: ₹ 246

Target: ₹ 290 (18%)

Target Period: 12 months

BUY

November 4, 2025

Operational discipline to drive consistent RoA trajectory...

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 740 out of total 889 branches
- Advance comprises of MSME (40%) and Agri (16%) segment. Diversifying focus towards other retail segment – home loan, personal loan etc.

Q2FY26 performance: City Union Bank reported strong performance in Q2FY26, with PAT rising 15% YoY to ₹328.6 crore, aided by healthy loan growth and margin expansion. Advances grew 18% YoY to ₹57,561 crore, led by robust traction in MSME and retail segments, while deposits increased 21% YoY to ₹69,486 crore, supported by a 16% rise in CASA. NIM improved 9 bps QoQ to 3.63%, owing to moderation in the cost of deposits and a favourable change in asset mix. Other income rose 14% YoY to ₹259 crore, led by higher fee income and recoveries, while operating expenses increased 20% YoY on account of higher employee costs. Despite elevated expenses, the CI ratio remained stable at 49.2%. Provisions were broadly flat YoY at ₹142 crore. Asset quality improved sharply, with GNPA/NNPA declining to 2.42%/0.90% (vs. 3.09%/1.25% in Q1FY26) and PCR rising to 82%. Capital adequacy remained strong at 21.7%, with Tier I capital at 20.7%.

Investment Rationale

- Sustained growth and healthy granularity:** Strong business momentum in Q2FY26, with advances rising 18% YoY (7% QoQ), led by the core MSME and gold loan portfolio. Gold loans surged 32% YoY (8% QoQ), increasing their share in the loan book to 28% (vs. 25% in Q2FY25), while MSME lending continued to anchor growth. The bank plans to expand its renewable energy loan portfolio fivefold to ₹2,500 crore over the next 30 months, reinforcing its diversification strategy. Deposit growth remained robust at 21% YoY, supported by 16% YoY growth in CASA, reflecting strong liabilities traction. Overall, we expect ~17% CAGR in credit growth over FY26E, aided by sustained demand in MSME and gold segments.
- Margins well protected with resilient asset quality:** NIM improved 9 bps QoQ to 3.63%, aided partly by higher recoveries (~4 bps impact) and deposit repricing. Management expects margins to remain stable with a slight positive bias, supported by lower funding costs. Operating expenses rose 20% YoY, led by employee costs, though the bank expects this to moderate to ~15% YoY in coming quarters. The CI ratio stood at ~49%, and guidance remains within the 48–50% range for FY26E. Higher recoveries surpassing slippages and manageable ECL transition is expected to keep a tab on credit cost. Asset quality strengthened further, with GNPA/NNPA declining to 2.42%/0.90% and PCR improving to 82% (vs. 79% Q1FY26).

Rating and Target Price

Regaining consistency in terms of resilient growth, margin trajectory along with prudent risk management is seen to aid valuation. Hence, we assign multiple at ~1.8x FY27E BV and thus target price at ₹290. Recommend Buy rating.

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	2163	2123	2316	7%	2675	3129	16%
PPP	1818	1517	1679	2%	1946	2250	16%
PAT	937	1016	1124	14%	1346	1474	15%
BV (₹)	99.7	112.3	125.9		143.4	163.0	
ABV (₹)	86.0	100.0	116.9		137.7	158.6	
P/ABV	2.9	2.5	2.1		1.8	1.6	
P/BV	2.5	2.2	2.0		1.7	1.5	
P/E	19.4	17.9	16.2		13.5	12.4	
RoA	1.5	1.6	1.6		1.7	1.7	
RoE	10.6	13.8	13.6		14.4	13.9	

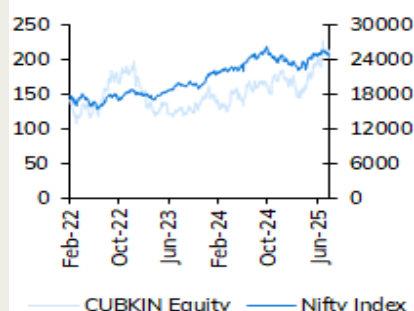
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 19,041 crore
52 week H/L	258 / 143
Networth	₹ 9,926 crore
Face value	1
DII Holding (%)	36.7
FII Holding (%)	25.9

Shareholding Pattern

	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	-	-	-	-
FII	27.5	28.0	27.4	27.4
DII	33.6	33.0	35.2	35.2
Others	38.9	39.0	37.4	37.4

Price Chart**Key Risks**

- Elevated opex and stress built-up in MSME portfolio
- Management succession

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Concall Highlights and Outlook

Credit and deposit growth

- Advances grew 18% YoY (6.6% QoQ) to ₹57,561 crore, led by MSME and retail segment, while deposits rose 21% YoY to ₹69,486 crore, driven by 23.4% YoY rise in term deposit.
- Management re-iterated to maintain mid-teen credit growth in FY26, targeting a pace 2–3% higher than system-level trends.
- The management indicated that total exposure to corporates/SME exporting to the US stands at ₹154 crore (0.27% of overall loans), with exposure to textile exporters at 0.12% of loans; these may thus not pose much risk.
- Basis draft ECL norms, the management does not expect additional provisions on Stage 3 assets (NPA), although it foresees 10–20bps higher provisioning on Stage 1 (mainly due to unfunded loans) and some minor additions on Stage 2 assets, given the recoveries from TWO (technical written off) accounts and the declining restructured book.
- Bank plans to grow renewable financing book to ₹2500 crore in the next 30 months (currently at ₹500 crore)

Margins

- NIM improved 9 bps QoQ to 3.63%, owing to moderation in the cost of deposits and a favourable change in asset mix.
- Management expects full-year margins to average between 3.45% and 3.5%, with margin to be bottomed in Q2FY26.
- Interest on IT refund for H1FY26 was ₹33 crore vs. ₹35 crore YoY. Added in other income (no impact on NIM)
- Margins are expected to be stable with a slight positive bias in H2, partly aided by the recent CRR cut

Asset quality

- Gross slippages improved to 1.1% (vs 1.5% Q1FY26)
- The bank has raised its PCR to 82% including technical write-off), in-line with its earlier commitment.
- MSME portfolio remains stable with no significant stress; book is fully secured with minuscule unsecured MSME loans.
- Management guides that recoveries > slippages in FY26, resulting in negative net slippages in next 2 quarters.

Other updates

- Bank has started its MD & CEO succession process. Last date for receipt of applications for MD & CEO role is 7 Nov, 2025
- The bank plans to add 75–80 branches in FY26, with most launches expected during H2.
- Cost-to-Income (C/I) ratio expected to stay between 48–50%.
- RoA guidance remains to be ~1.5-1.6%.

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	666.5	582.5	14.4	625.3	6.6	Healthy NII growth aided by strong credit growth
NIM (%)	3.63	3.67	-4 bps	3.54	9 bps	
Other Income	259.1	226.3	14.5	243.9	6.3	Led by fee income which grew 29% YoY
Net Total Income	925.7	808.8	14.4	869.2	6.5	
Staff cost	224.4	183.5	22.2	200.6	11.8	Opex accretion amid building distribution and headcount
Other Operating Expenses	230.7	197.1	17.1	217.6	6.0	
PPP	470.6	428.2	9.9	450.9	4.4	
Provision	57.0	70.0	-18.6	70.0	-18.6	Gross slippages improved to 1.1% (vs 1.5% Q1FY26)
PBT	413.6	358.2	15.5	380.9	8.6	
Tax Outgo	85.0	73.0	16.4	75.0	13.3	
PAT	328.6	285.2	15.2	305.9	7.4	Strong growth traction aided profitability
Key Metrics						
GNPA	1,393.2	1,725.5	-19.3	1,617.0	-13.8	GNPA ratio improved 57 bps QoQ to 2.42%
NNPA	512.9	775.0	-33.8	634.6	-19.2	
Advances	57,561.0	48,722.0	18.1	54,020.3	6.6	Led by gold, MSME and retail growth
Deposits	69,486.0	57,369.1	21.1	65,734.0	5.7	Strong accretion in low cost saving deposit

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	5,270.6	5,834.0	6,561.3	7,521.7
Interest Expended	3,147.1	3,518.3	3,886.1	4,392.3
Net Interest Income	2,123.5	2,315.7	2,675.2	3,129.4
growth (%)	-1.8	9.1	15.5	17.0
Non Interest Income	741.7	898.1	1,013.1	1,082.1
Net Income	2,865.1	3,213.8	3,688.3	4,211.5
Staff cost	613.8	733.0	859.3	1,003.6
Other Operating expense	734.6	802.2	883.4	958.2
Operating profit	1,516.7	1,678.6	1,945.5	2,249.8
Provisions	286.0	262.0	263.0	407.6
Taxes	215.1	293.0	336.5	368.4
Net Profit	1,015.6	1,123.6	1,346.0	1,473.7
growth (%)	8.3	10.6	19.8	9.5
EPS (₹)	13.7	15.2	18.2	19.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Valuation</u>				
No. of Equity Shares	74.1	74.1	74.1	74.1
EPS (₹)	13.7	15.2	18.2	19.9
BV (₹)	112.3	125.9	143.4	163.0
ABV (₹)	100.0	116.9	137.7	158.6
P/E	17.9	16.2	13.5	12.4
P/BV	2.2	2.0	1.7	1.5
P/ABV	2.5	2.1	1.8	1.6
<u>Yields & Margins (%)</u>				
Net Interest Margins	3.3	3.3	3.4	3.5
Yield on assets	8.1	8.3	8.3	8.3
Avg. cost on funds	5.4	5.6	5.5	5.4
Yield on average advances	9.4	9.6	9.2	9.2
Avg. Cost of Deposits	4.9	4.9	5.3	5.2
<u>Quality and Efficiency (%)</u>				
Cost to income ratio	46.9	47.6	47.1	46.5
Credit/Deposit ratio	81.8	82.0	83.2	83.7
GNPA	4.2	3.1	2.1	1.7
NNPA	2.0	1.3	0.7	0.5
RoE	13.8	13.6	14.4	13.9
RoA	1.6	1.6	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Sources of Funds</u>				
Capital	74.0	74.0	74.0	74.0
Reserves and Surplus	8,327.4	9,392.5	10,686.5	12,136.8
Networth	8,401.4	9,466.6	10,760.5	12,210.8
Deposits	55,656.6	63,526.0	73,204.8	83,706.2
Borrowings	4,724.2	2,169.4	2,475.9	2,764.6
Other Liabilities & Provisions	2,043.6	2,461.2	2,618.6	2,821.9
Total	70,825.8	77,623.2	89,059.8	101,503.6
<u>Applications of Funds</u>				
Fixed Assets	270.4	322.3	361.1	410.7
Investments	15,664.1	17,336.1	19,074.1	20,987.2
Advances	45,525.7	52,081.3	60,935.1	70,075.3
Other Assets	2,422.1	2,592.9	3,038.8	3,985.7
Cash with RBI & call money	6,943.5	5,290.5	5,650.8	6,044.6
Total	70,825.8	77,623.2	89,059.8	101,503.6

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	6.4	9.6	14.7	14.0
Advances	5.7	14.4	17.0	15.0
Deposit	6.2	14.1	15.2	14.3
Total Income	8.8	12.0	12.5	13.6
Net interest income	-1.8	9.1	15.5	17.0
Operating expenses	16.7	13.9	13.5	12.6
Operating profit	-16.6	10.7	15.9	15.6
Net profit	8.3	10.6	19.8	9.5
Net worth	12.6	12.2	13.9	13.6
EPS	13.7	15.2	18.2	19.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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