

April 28, 2026

### All-round performance; transition with strategic continuity...

**About the stock:** City Union Bank is an old private sector bank with focus on MSME and agri loans that form ~54% of overall advances.

- Strong presence in South India with 770 out of total 949 branches
- Advance comprises of MSME (38%) and Agri (16%) segment. Diversifying focus towards other retail segment – home loan, personal loan etc.

**Q4FY26 performance:** City Union Bank reported strong Q4FY26 performance, with advances rising 25.7% YoY to ₹66,699 crore, driven by continued traction in MSME and gold loans, while deposits grew 23% YoY (11% QoQ) to ₹78,308 crore, supported by steady CASA and retail TD mobilisation. NII increased 31% YoY (4.5% QoQ) to ₹785.8 crore, supported by strong loan growth and stable margins. Operating expenses rose 21% YoY on higher employee technology and expansion-related costs, though C/I ratio improved to ~46.1%. Provisions increased 44% YoY to ₹2,200 crore, reflecting higher proactive buffers, while PAT rose 25% YoY to ₹3,596 crore. Asset quality improved significantly, with GNPA/NNPA declining to 1.91%/0.68% and PCR strengthening to 84%, while RoA stood at 1.56%.

### Investment Rationale

- **Healthy growth with sustenance likely going into FY27:** Strong business momentum continued in Q4, with advances surging 25.7% YoY (9.5% QoQ), largely led by gold loan portfolio (36% YoY), while deposits grew 23% YoY (11% QoQ), supported by granular CASA (19% YoY) and term deposits (24.8% YoY), keeping CD ratio comfortable at ~85%. Management reiterated its guidance of mid-to-high teen credit growth (2–3% above system), with portfolio mix broadly stable at MSME (55–60%), gold loans (~30–32%) and secured retail, ensuring a well-diversified yet secured book. We bake in credit growth of ~17–18% for FY27–28E.
- **Stable margins and improving asset quality to support RoA expansion:** Margins remained stable at 3.87% (vs 3.89% Q3FY26), supported by strong loan growth (9.5% QoQ) and favourable asset mix, including ~29% fixed-rate gold loan portfolio, despite full rate transmission. Management expects NIM to remain stable within a ±5–10 bps band, aided by LCR flexibility, CD ratio optimisation and asset mix. Asset quality continues to improve, with GNPA/NNPA declining to 1.91%/0.68%, total SMA at 2.47% (vs 3.68% QoQ), and recoveries exceeding slippages, indicating a benign credit cost outlook. While opex is expected to remain elevated ~15–17% growth due to branch expansion, management has guided for ~10 bps improvement in RoA to ~1.65–1.67% in FY27, supported by operating leverage and better income mix. Additionally, leadership transition to R. Vijay Anandh is expected to be smooth, ensuring continuity in strategy and execution.

### Rating and Target Price

- Healthy growth momentum, stable margins supported by favourable asset mix and continued improvement in asset quality provide comfort on earnings visibility, with management guiding for RoA improvement to ~1.65–1.67% in FY27E. Basis this, we continue to assign multiple of ~1.7x FY28E BV and maintain target price at ₹320. Maintain our BUY rating.

### Key Financial Summary

₹ crore	FY24	FY25	FY26	3 year CAGR (FY23–26)	FY27E	FY28E	2 year CAGR (FY26–28E)
NII	2123	2316	2830	9%	3424	3970	18%
PPP	1517	1679	2014	3%	2402	2777	17%
PAT	1016	1124	1326	12%	1561	1750	15%
BV (₹)	112.3	125.9	142.2		164.0	187.3	
ABV (₹)	100.0	116.9	137.4		159.3	181.7	
P/ABV	2.8	2.4	2.0		1.7	1.5	
P/BV	2.5	2.2	1.9		1.7	1.5	
P/E	20.2	18.3	15.5		13.1	11.7	
RoA	1.6	1.6	1.5		1.7	1.6	
RoE	13.8	13.6	13.2		14.7	14.4	

Source: Company, ICICI Direct Research



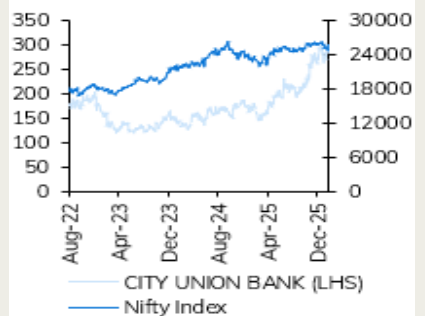
### Particulars

Particulars	Amount
Market Capitalisation	₹ 20,438 crore
52 week H/L	324 / 172
Networth	₹ 10,565 crore
Face value	1
DII Holding (%)	40.7
FII Holding (%)	23.4

### Shareholding Pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	-	-	-	-
FII	27.4	26.0	23.5	23.4
DII	35.2	36.8	40.2	40.7
Others	37.4	37.2	36.3	35.9

### Price Chart



### Key Risks

- Slower than expected business growth
- Decline in asset quality amid geopolitical uncertainty

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## Concall Highlights and Outlook

### Credit and deposit growth

- Advances rose by 25.7% YoY (9.5% QoQ) to ₹66,699 crore, driven by continued traction in MSME, gold loans, CRE and secured retail segments. Management reiterated mid-to-high teen growth (2–3% above system) going forward.
- Deposits grew 23% YoY (11% QoQ) to ₹78,308 crore, supported by CASA and granular term deposits; CD ratio stood at ~85%, with comfort at 85–87%.
- Portfolio mix to remain stable with MSME at 55–60%, gold loans at ~30–32%, and balance in secured retail; new product initiatives planned across segments.
- MSME demand remains healthy, driven by working capital utilisation, capacity expansion, and balance transfers, with improving utilisation levels across segments.
- RoA remained stable at ~1.56%, Management expects ~10 bps improvement in RoA in FY27 to ~1.65–1.67%, driven by operating leverage and improved income mix.

### Margins

- NII increased 31% YoY (4.5% QoQ), supported by strong loan growth and stable margins, with yields buoyed by a ~29% fixed-rate gold mix despite full rate transmission. NIM remained largely stable at 3.87%.
- Management expects stable NIM in FY27 within a ±5–10 bps band, supported by LCR flexibility, CD ratio optimisation and asset mix.
- Replacement of higher-cost CDs with retail deposits and funding flexibility provide cushion to margins.

### Asset quality & Opex

- GNPA declined to 1.91% (vs 2.17% QoQ) and NNPA to 0.68%, marking continued improvement over the last three years.
- SMA trends improved significantly, with total SMA at 2.47% (vs 3.68% QoQ) and SMA-2 at 0.72% (vs 0.95% QoQ), indicating a declining stress pipeline.
- PCR improved to 84%, reflecting continued buffer-building and conservative provisioning stance.
- Opex expected to remain elevated at 15–18% YoY in FY27, driven by accelerated branch expansion (recently inaugurated 1000<sup>th</sup> branch vs 949 branches in March 2026).
- Asset quality improved further with recoveries exceeding slippages; Q4 slippages at ₹199 crore vs recoveries of ₹231 crore.

### Other updates

- Leadership transition underway with R. Vijay Anandh taking charge as MD & CEO from May 1, 2026, ensuring continuity in strategy and execution.
- During tenure of outgoing MD Dr. Kamakodi's tenure, the bank delivered strong long-term growth with deposits up 6x, advances 7x and net worth ~10x.
- CGTMSE exposure remains minimal at ~2–3%, as the bank prefers secured lending with collateral over guarantee-backed lending.
- Gold loan share at ~30–32% is near the upper comfort band; minor fluctuations of 1–2% may occur, but the bank is cautious on any substantial expansion from current level.
- On ECL, management indicated that the latest framework may allow adjustment through opening reserves without P&L impact, and given strong Tier I capital, incremental P&L provisioning requirement is unlikely to be material.

Exhibit 1: Variance Analysis

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments
NII	785.8	600.3	30.9	752.2	4.5	Supported by strong loan growth and stable margins, with yields buoyed by a ~29% fixed-rate gold mix despite full rate transmission
NIM (%)	3.87	3.60	27 bps	3.89	-2 bps	
Other Income	290.5	251.2	15.6	245.3	18.4	Driven by higher fee income contribution (~55-60% of other income) and recoveries
<b>Net Total Income</b>	<b>1,076.3</b>	<b>851.5</b>	<b>26.4</b>	<b>997.5</b>	<b>7.9</b>	
Staff cost	234.6	196.5	19.4	230.2	1.9	Higher employee, technology and branch expansion cost, opex guided at ~15-18% YoY in FY27
Other Operating Expenses	262.1	214.0	22.5	254.1	3.1	
PPP	579.6	441.0	31.4	513.2	12.9	
Provision	120.0	78.0	53.8	96.0	25.0	Proactive buffer-building undertaken
PBT	459.6	363.0	26.6	417.2	10.2	
Tax Outgo	100.0	75.0	33.3	85.0	17.6	
PAT	359.6	288.0	24.9	332.2	8.3	PAT growth was driven by strong operating performance amid stable margins
<b>Key Metrics</b>						
GNPA	1,273.1	1,638.2	-22.3	1,320.0	-3.6	GNPA improved by 26 bps QoQ to 1.91%
NNPA	4,494.2	653.1	588.2	469.3	857.6	
Advances	66,698.8	53,066.4	25.7	60,892.0	9.5	Healthy growth led by Gold (36% YoY) and MSME (15.4%)
Deposits	78,308.0	63,526.0	23.3	70,516.0	11.0	CASA grew by 19% YoY

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement		₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E	
Interest Earned	5,834.0	6,869.8	8,000.1	9,470.9	
Interest Expended	3,518.3	4,039.9	4,575.8	5,500.5	
Net Interest Income	2,315.7	2,829.8	3,424.3	3,970.3	
growth (%)	9.1	22.2	21.0	15.9	
Non Interest Income	898.1	1,038.8	1,119.9	1,240.5	
Net Income	3,213.8	3,868.7	4,544.2	5,210.8	
Staff cost	733.0	889.8	1,047.5	1,227.6	
Other Operating expense	802.2	964.6	1,094.3	1,206.7	
Operating profit	1,678.6	2,014.2	2,402.3	2,776.6	
Provisions	262.0	343.0	426.0	561.9	
Taxes	293.0	345.0	415.0	465.1	
Net Profit	1,123.6	1,326.2	1,561.3	1,749.6	
growth (%)	10.6	18.0	17.0	12.1	
EPS (₹)	15.2	17.9	21.1	23.6	

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios		FY25	FY26	FY27E	FY28E
(Year-end March)					
<u>Valuation</u>					
No. of Equity Shares		74.1	74.3	74.1	74.1
EPS (₹)		15.2	17.9	21.1	23.6
BV (₹)		125.9	142.2	164.0	187.3
ABV (₹)		116.9	137.4	159.3	181.7
P/E		18.3	15.5	13.1	11.7
P/BV		2.2	1.9	1.7	1.5
P/ABV		2.4	2.0	1.7	1.5
<u>Yields &amp; Margins (%)</u>					
Net Interest Margins		3.3	3.5	3.5	3.5
Yield on assets		8.3	8.3	8.3	8.4
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
<u>Quality and Efficiency (%)</u>					
Cost to income ratio		47.6	48.3	47.0	46.6
Credit/Deposit ratio		82.0	84.1	84.5	85.8
GNPA		3.1	2.0	1.5	1.3
NNPA		1.3	0.7	0.5	0.5
RoE		13.6	13.2	14.7	14.4
RoA		1.6	1.5	1.7	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet		₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E	
<u>Sources of Funds</u>					
Capital	74.0	74.3	74.0	74.0	
Reserves and Surplus	9,392.5	10,490.6	12,213.1	13,939.4	
Networth	9,466.6	10,564.9	12,287.2	14,013.4	
Deposits	63,526.0	78,308.0	89,027.7	105,208.6	
Borrowings	2,169.4	5,326.8	4,061.8	4,395.9	
Other Liabilities & Provisions	2,461.2	2,824.8	2,821.9	3,042.4	
Total	77,623.2	97,024.4	108,198.6	126,660.4	
<u>Applications of Funds</u>					
Fixed Assets	322.3	468.5	410.7	474.1	
Investments	17,336.1	18,986.9	20,987.2	23,092.9	
Advances	52,081.3	65,875.2	75,199.0	90,226.6	
Other Assets	2,592.9	2,766.7	3,075.4	3,396.3	
Cash with RBI & call money	5,290.5	8,927.1	8,526.3	9,470.5	
Total	77,623.2	97,024.4	108,198.6	126,660.4	

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios		FY25	FY26	FY27E	FY28E
(Year-end March)					
Total assets		9.6	25.0	11.5	17.1
Advances		14.4	26.5	14.2	20.0
Deposit		14.1	23.3	13.7	18.2
Total Income		12.0	20.0	19.3	15.6
Net interest income		9.1	22.2	21.0	15.9
Net profit		10.6	18.0	17.7	12.1
Net worth		12.2	11.6	16.3	14.0
EPS		15.2	18.0	17.7	12.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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