City Union Bank Ltd (3rd July 2026)

Company Overview

- City Union Bank (CUB), founded in 1904, is one of India's oldest private sector banks with a specialized MSME/SME, retail and wholesale trade-focused lending model backed by a granular, collateralized loan book and a predominantly retail liability franchise. As of FY26, the bank operates 949 branches, with deposits of ₹78,308 crore, advances of ₹66,699 crore, total business of ₹1.45 lakh crore, and 8,894 employees.
- The bank has a strong presence in South India, with 770 of its 949 branches located in the region, including 578 branches in Tamil Nadu, which contributes 72% of its total business. Approximately 38% of the loan book is concentrated in the MSME and and Agri (16%) segment, reinforcing its niche lending franchise.

Sector Outlook

- The Indian banking sector is expected to witness sustained growth, supported by strong domestic economic activity, rising credit demand across retail, MSME and corporate segments, increasing financial inclusion and continued digitalisation. Healthy capital positions and improving asset quality across the industry are likely to support steady loan growth and profitability over the medium term.
- Despite the favourable outlook, the sector faces challenges from intense competition for deposits, potential pressure on net interest margins in a softening interest-rate environment, and evolving RBI regulations on areas such as gold loans, unsecured lending and MSME financing. Banks with strong liability franchises, prudent underwriting and technology-led operating models are expected to outperform peers.

Company Outlook

- FY26 marked a clear growth inflection, with advances growing 26% YoY, deposits 23% YoY, and total business 25% YoY, the strongest business growth recorded in the past 15 years. The acceleration was driven by the new leadership's (ED R. Vijay Anandh, ex-RBL) strategic focus on expanding retail assets, gold loans and digital lending, marking a shift from the bank's historically conservative growth approach.
- Asset quality has strengthened significantly, with GNPA declining to 1.91% (from 3.09% in FY25), NNPA to 0.68%,

City Union Bank Ltd

30% Target Return	₹280 Target Price
12 months Duration	₹216 Current price

BUY

Particulars	FY24	FY25	FY26	FY27E	FY28E
Interest Earned	5,271	5,834	6,870	8,175	9,565
Interest Expended	3,147	3,518	4,040	4,565	5,341
Net Interest Income	*2,123*	*2,316*	*2,830*	*3,610*	*4,224*
NIM Growth %		9.1%	22.2%	27.6%	17.0%
NII Margin %	*3.6%*	*3.6%*	*3.7%*	*3.7%*	*3.7%*
PPOP	1,528	1,679	2,014	2,371	2,774
PAT (Rs. Cr)	1,016	1,124	1,326	881	1,031
ROA %	1.5%	1.6%	1.6%	1.6%	1.7%
P/E x	9.9	10.4	13.4	24.2	20.7

PCR improving to 84%, slippages reducing to 1.12%, and credit cost falling to 0.04%. The sharp improvement indicates that the post-Covid stress cycle has largely normalized, providing a strong foundation for sustainable loan growth. Management reiterated its guidance of delivering mid-to-high teens credit growth, targeting loan growth 2-3% above the industry average

- Profitability is expected to improve further, supported by healthy business growth, stable margins (FY26 NIM 3.74%, Q4 exit 3.87%) and lower funding costs. While RoE improved to 13.35%, the bank's strong capital position (CRAR 21.92%) provides ample headroom to accelerate lending and enhance shareholder returns over the medium term.

- The bank continues to strengthen its long-term growth strategy through digital transformation, with investments in digital lending, AI-powered conversational bots, API banking and UPI-based solutions such as UPI ATM and Reserve Pay. Alongside the rapid expansion of its gold loan franchise, these initiatives are expected to enhance customer experience, improve operating efficiency, reduce acquisition costs and support scalable, technology-led growth

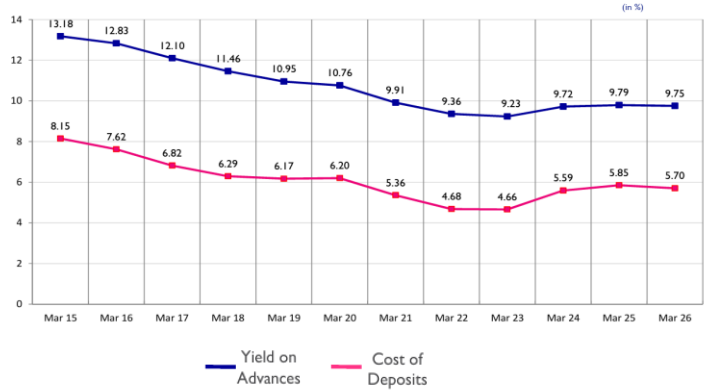
Rating

- We initiate coverage on City Union Bank with a BUY rating and a target price of ₹280, based on a target valuation of 2.0x FY28E Adjusted Book Value (P/BV). We believe the bank is well positioned to deliver mid-to-high teens credit growth, supported by its strong MSME franchise, improving asset quality, robust capital adequacy and expanding digital capabilities. With healthy earnings visibility, improving return ratios and scope for valuation re-rating, we believe the current valuation offers an attractive risk-reward opportunity.

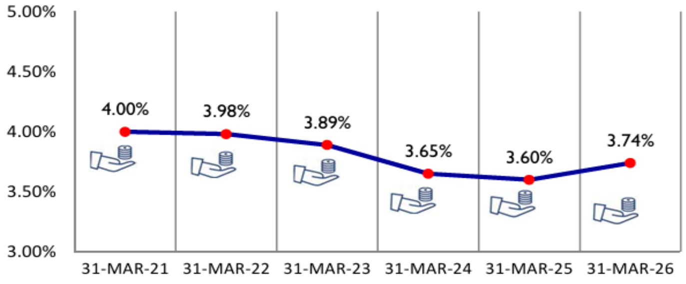
Key Risks

- key risks include its high geographic concentration in South India (particularly Tamil Nadu), rising dependence on the fast-growing gold loan portfolio, intense competition for low-cost deposits that could pressure NIMs, and evolving RBI regulations on gold loans and MSME lending, which may impact future growth and profitability.

YIELD ON ADVANCES & COST OF DEPOSITS



NET INTEREST MARGIN



Source : Company Presentations

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