

Growth Visibility Improves, Upgrade to BUY on Valuation Comfort!

Est. Vs. Actual for Q2FY25: NII – **BEAT**; PPOP – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q2FY25

FY25E/FY26E/FY27E: NII: 5.9%/4.1%/2.6%; PPOP: 8.5%/5.0%/3.2%; PAT: 6.0%/2.1%/1.8%

Recommendation Rationale

- Growth revival in sight:** The management has indicated the growth visibility has improved post the implementation of new initiatives and tech overhaul. Currently, the pick-up in growth has been in the traditional segments of MSME and Gold loans, led by strong demand. This momentum is likely to continue, as the management expects CUB's credit growth rate to converge with the systemic growth rate in FY25E and the pace to accelerate from FY26E onwards. CUB will extend the MSME processes to the retail secured loans – LAP, Micro-LAP, and Housing as it looks to scale the book to constitute ~7-8% of the portfolio over the next 3-4 years. The bank's process to strengthen its executive and field team to kick-start its retail growth journey is underway. The management has also indicated that the bank will not look to pursue growth in the unsecured segment. With growth visibility improving, we expect CUB to resume its growth journey and deliver a ~14% CAGR growth over FY24-27E.
- Asset Quality on an improving trend:** The management expects the slippages to trend downwards as it expects to cap its FY25 slippages at Rs 800 Cr. Meanwhile, recoveries from live NPA and written-off accounts are expected to remain healthy, thereby aiding asset quality improvement. CUB expects to exit FY25 with NNPA ranging between 1-1.25%, thereby strengthening its PCR, and bringing it in line with peers. With asset quality improvement likely, we expect credit costs will continue to range between 0.5-0.6% over FY25-27E.
- NIMs to find support from gold loan yields:** NIM's improvement of 13bps QoQ in Q2FY25 was led by a healthy improvement in yields, while CoF remained largely stable. The bank has revised its gold yields upwards and expects to transmit the higher rates (on incremental lending and renewals) until the rate cut cycle. CUB intends to transition its gold loan book into a fixed rate book, from a floating rate currently as it would bode well from a margin perspective in a rate cut cycle. Currently, ~25-30% of the book has already transitioned towards a fixed rate and the management expects ~50-60% of the book to transition by the start of the rate cut cycle. CUB has guided for NIMs to be maintained at 3.6% (+/-5bps).

Sector Outlook: Positive

Company Outlook: CUB appears to have re-started its growth journey, with demand-led growth visible in the core segments. As the revamped processes yield results and the bank begins pursuing growth in the non-core retail segment, we expect growth to improve further. Steady NIMs, improving Opex ratios and stable credit costs are likely to enable CUB to deliver RoA/RoE of 1.6%/13-14% over FY25-27E.

Current Valuation: 1.3x Sep'26E ABV **Earlier Valuation:** 1.3x FY26E ABV

Current TP: Rs 185/share **Earlier TP:** Rs 170/share

Recommendation: We revise our rating from HOLD earlier to **BUY**.

Financial Performance:

- Operational and Financial Performance:** CUB's advances growth improved to 12/5% YoY/QoQ. Deposits growth also improved to 9/5% YoY/QoQ. C-D Ratio remained stable at ~83.3%, flat QoQ. NII grew by 8/7% YoY/QoQ with NIMs improving by 13bps QoQ and improved growth momentum. NIMs stood at 3.67% vs 3.74/3.54% YoY/QoQ. Yields on advances improved by 22bps QoQ, while CoD/CoF remained largely stable sequentially. Non-interest income grew by 24/18% YoY/QoQ. The bank reported a treasury gain of Rs 25 Cr vs Rs 17 Cr QoQ. Opex grew by 14/5% YoY/QoQ. C-I Ratio improved owing to better top-line growth to 47.1% vs 49.3% QoQ. PPOP de-grew by 11/15% YoY/QoQ. Credit costs increased to 59bps vs 34 bps QoQ. PAT grew by 2/8% YoY/QoQ.
- Asset quality** improved with GNPA/NNPA at 3.54/1.62% vs 3.88/1.87% QoQ, led by better recoveries and upgrades. Slippages during the quarter were flat QoQ (slippage ratio of 1.5%)

Outlook

CUB's growth appears to have finally picked up and the management remains optimistic of growth momentum continuing and improving hereon. The bank does not face challenges on deposit accretion and growth is likely to remain in line with credit growth, thereby keeping LDR stable. While Opex appears elevated with the bank up fronting costs, improving branch productivity and growth should help improve cost ratios. Backed by expectations of healthy NIMs, we revise our NII growth by 3-6% over FY25-27E. This coupled with expectations of improving Opex ratios is driving a 2-6% increase in our earnings estimates over the same period. We believe consistent growth delivery would remain a key factor to ensure meaningful re-rating.

Valuation & Recommendation

We revise our rating to **BUY** from **HOLD** earlier backed by an improved growth outlook and valuation comfort. CUB currently trades at 1.1x Sep'26E ABV and we value the stock at 1.3x Sep'26E ABV to arrive at a target price of Rs 185/share, implying an upside of 23% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	582.5	+6.8	+8.2	555.3	+4.9
PPOP	428.2	+14.6	+10.8	385.0	+11.2
Net Profit	285.2	+7.8	+1.6	265.0	+7.6
NNPA (%)	1.6	-25 bps	-72 bps	1.8	-15 bps
RoA (%)	1.6	+8 bps	-10 bps	1.5	+14 bps

Source: Company, Axis Securities Research

(CMP as of 21 October, 2024)

CMP (Rs)	151
Upside /Downside (%)	23%
High/Low (Rs)	177/125
Market cap (Cr)	11,165
Avg. daily vol. (6m) Shrs.	39,43,055
No. of shares (Cr)	74.1

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	0.0	0.0	0.0
FIIs	27.0	26.9	26.0
MFs / UTI	24.5	26.4	29.0
Others	48.5	46.7	45.0

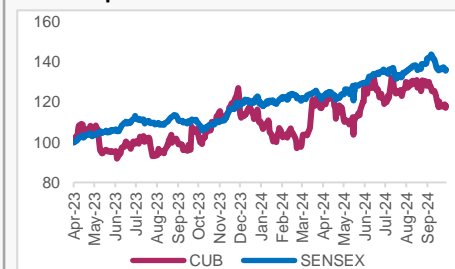
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	2,384	2,701	3,073
PPOP	1,688	1,944	2,243
Net Profit	1,130	1,282	1,479
EPS (Rs)	15.3	17.3	20.0
ABV (Rs)	117.5	133.5	151.3
P/ABV (x)	1.3	1.1	1.0
RoA (%)	1.6	1.6	1.6
NNPA (%)	1.4	1.1	1.0

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	+5.9	+4.1	+2.6
PPOP	+8.5	+5.0	+3.2
PAT	+6.0	+2.1	+1.8

Relative performance



Source: AceEquity, Axis Securities Research

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Key Risks to Our Estimates and TP

- The key risk to our estimates remains a further slowdown or delay in growth pick-up in credit which could potentially derail our earnings estimates.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	2,384	2,701	3,073	2,252	2,595	2,995	5.9	4.1	2.6
PBP	1,688	1,944	2,243	1,555	1,852	2,174	8.5	5.0	3.2
PAT	1,130	1,282	1,479	1,066	1,256	1,453	6.0	2.1	1.8

Source: Company, Axis Securities Research

Results Review

(Rs Cr)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	582	538	8.2	545	6.8	1,128	1,061	6.3
Non-Interest Income	226	182	24.3	192	17.8	418	374	12.0
Operating expenses	381	334	14.0	364	4.6	744	634	17.5
Staff Cost	184	158	16.0	174	5.2	358	290	23.3
Pre provision profits	428	387	10.8	373	14.6	802	801	0.1
Provisions and contingencies	70	56	25.0	39	79.5	109	208	-47.6
PBT	358	331	8.3	334	7.1	693	593	16.8
Provision for Tax	73	50	46.0	70	4.3	143	85	68.2
PAT	285	281	1.6	264	7.8	550	508	8.2
Advances	48,722	43,688	11.5	46,548	4.7	48,722	43,688	11.5
Deposits	57,369	52,714	8.8	54,857	4.6	57,369	52,714	8.8
CASA Deposits	16,893	15,590	8.4	16,195	4.3	16,893	15,590	8.4
CASA Ratio	29.4	29.6	-13bps	29.5	-8bps	29.4	29.6	-13bps
CD Ratio	84.9	82.9	205bps	84.9	7bps	84.9	82.9	205bps
Cost-Income ratio (%)	47.1	46.3	72bps	49.3	-228bps	48.2	44.2	404bps
NIM (%)	3.7	3.7	-7bps	3.5	13bps	3.6	3.7	-10bps
RoA (%)	1.6	1.7	-10bps	1.5	8bps	1.6	1.5	1bps
RoE (%)	13.0	14.4	-136bps	12.5	55bps	12.7	13.2	-50bps
Asset Quality								
Gross NPA (%)	3.5	4.7	-112bps	3.9	-34bps	3.5	4.7	-112bps
Net NPA (%)	1.6	2.3	-72bps	1.9	-25bps	1.6	2.3	-72bps
PCR (%)	76.2	71.1	508bps	73.0	323bps	76.2	71.1	508bps
Capital Adequacy								
CRAR	23.0	22.2	77bps	23.6	-60bps	23.0	22.2	77bps
Tier I	22.0	21.2	81bps	22.6	-57bps	22.0	21.2	81bps
Tier II	1.0	1.0	-4bps	1.0	-3bps	1.0	1.0	-4bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss					(Rs Cr)
Y/E March	FY24	FY25E	FY26E	FY27E	
Net Interest Income	2,123	2,384	2,701	3,073	
Non-Interest Income	742	878	1,011	1,157	
Total Income	2,865	3,262	3,712	4,230	
Operating Expenses	1,348	1,574	1,768	1,987	
Pre-Provision Profits	1,517	1,688	1,944	2,243	
Provisions	286	264	329	379	
PBT	1,231	1,423	1,615	1,863	
Tax	215	293	333	384	
Profit After Tax	1,016	1,130	1,282	1,479	

Source: Company, Axis Securities Research

Balance Sheet					(Rs Cr)
Y/E March	FY24	FY25E	FY26E	FY27E	
Equity Share Capital	74	74	74	74	
Reserves & Surplus	8,327	9,343	10,496	11,796	
Net Worth	8,401	9,417	10,570	11,870	
Deposits	55,657	62,453	71,336	81,624	
Borrowings	4,724	5,366	5,028	6,456	
Other Liabilities	2,044	2,789	3,139	3,610	
Total Liabilities	70,826	80,026	90,073	1,03,560	
Cash & Bank balances	6,944	5,293	5,689	6,510	
Investments	15,664	20,013	21,432	24,523	
Loans	45,526	51,357	59,167	68,175	
Fixed Assets & Others	2,693	3,362	3,785	4,351	
Total Assets	70,826	80,026	90,073	1,03,560	

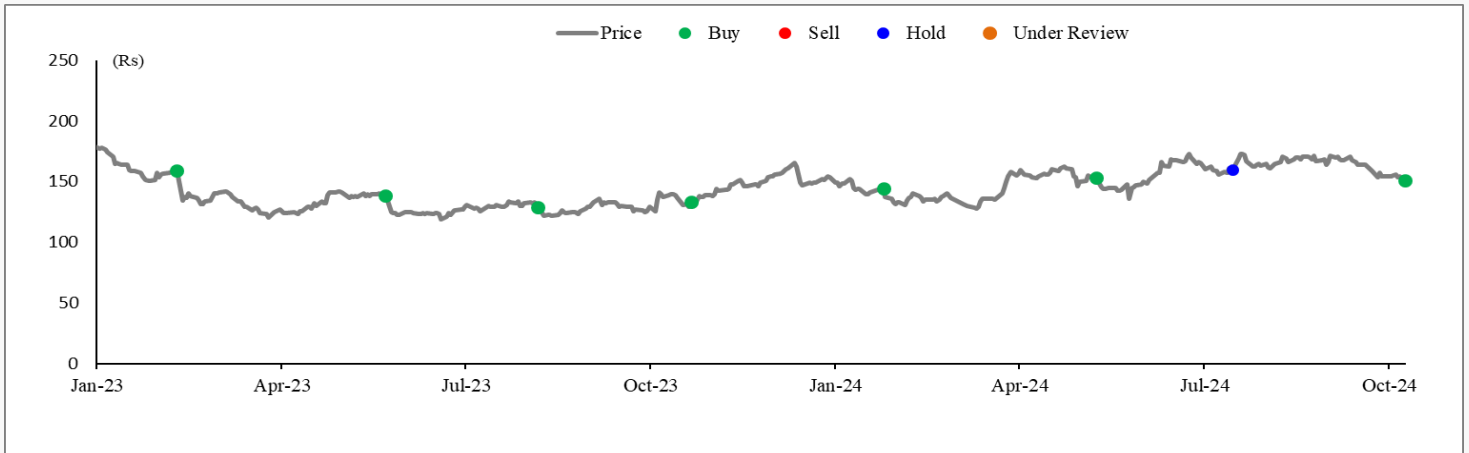
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	13.7	15.3	17.3	20.0
Earnings Growth (%)	8%	11%	13%	15%
BVPS	113.4	127.1	142.7	160.3
Adj. BVPS	101.3	117.5	133.5	151.3
RoA (%)	1.5	1.6	1.6	1.6
ROAE (%)	12.8	12.7	12.8	13.7
P/E (x)	11.0	9.9	8.7	7.5
P/ABV (x)	1.5	1.3	1.1	1.0
OPERATING EFFICIENCY				
NIM (%)	3.7	3.7	3.8	3.8
Cost/Avg. Asset Ratio (%)	2.0	2.1	2.1	2.1
Cost-Income Ratio (%)	47.1	48.3	47.6	47.0
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	5.7	12.8	15.2	15.2
Deposits Growth (%)	6.2	12.2	14.2	14.4
Equity/Assets (%)	11.9	11.8	11.7	11.5
Equity/Loans (%)	18.5	18.3	17.9	17.4
Total Capital Adequacy Ratio (CAR)	23.7	22.6	20.9	20.4
ASSET QUALITY				
Gross NPLs (%)	4.0	3.1	2.5	2.2
Net NPLs (%)	2.0	1.4	1.1	1.0
Coverage Ratio (%)	76.3	81.5	81.5	81.5
Provision/Avg. AUM (%)	0.6	0.5	0.6	0.6
ROAA TREE (on Total Assets)				
Net Interest Income	3.1	3.2	3.2	3.2
Non-Interest Income	1.1	1.2	1.2	1.2
Operating Cost	2.0	2.1	2.1	2.1
Provisions	0.4	0.4	0.4	0.4
Tax	0.3	0.3	0.3	0.3
ROAA	1.5	1.6	1.6	1.6
Leverage (x)	8.7	8.1	8.2	8.6
ROAE	12.8	12.7	12.8	13.7

Source: Company, Axis Securities Research

City Union Bank Price Chart and Recommendation History



Date	Reco	TP	Research
13-Feb-23	BUY	190	Result Update
29-May-23	BUY	160	Result Update
14-Aug-23	BUY	150	Result Update
30-Oct-23	BUY	150	Result Update
02-Feb-24	BUY	160	Result Update
21-May-24	BUY	160	Result Update
29-Jul-24	HOLD	170	Result Update
22-Oct-24	BUY	185	Result Update

Source: Axis Securities Research

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