

## City Union Bank (CUBK) - SELL

### Q4FY26 Result Update

Current Market Price (CMP) <b>Rs.271</b>	Fair Value (FV) <b>Rs.250</b>
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### Rationale:

- CUBK reported 25% yoy earnings growth in Q4FY26 on the back of 30% yoy operating profit growth, offset by ~55% yoy increase in provisions.
- Net Interest Margin (NIM) was flat qoq, credit costs were contained (0.5%) and Return on Equity (ROE) was stable at 14%.
- While the performance has been solid thus far, we note that the key risk, from a growth perspective, is the relatively higher dependence on gold loans.
- We prefer to own the frontline banks over regional banks. We maintain our SELL rating with an FV of Rs250 (unchanged).

### 👍 Positives:

- Reported an improvement of 25 bps qoq in Gross Non Performing Loans (NPL) ratio to 1.9%, while Net NPL ratio declined 10 bps qoq to 0.7%
- It reported slippages of Rs200 cr (1.3% of loans, annualized basis). Slippage trends of the bank seems to have stabilized.
- A healthy growth in gross advances of 24% yoy (8% qoq). Deposits continue to be strong at 23% yoy, Current Account and Savings Account (CASA) growth also strong at 20% yoy.
- NIM (reported) was flat qoq at 3.9%. Credit Deposit (CD) ratio for the bank was at 84%, down 220 bps qoq.
- Gross slippage ratio (annualized) for the quarter stood at 1.5%, lower than the slippage of ~3% reported in Q1FY26 and ~2% in the two subsequent quarters.

### 👎 Negatives:

- Slightly elevated operating expenses for FY27E in the range of 15-18%.
- key challenge is the relative differential in valuation multiples between frontline banks and regional banks with a similar RoE profile.



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

## RATING SCALE (PRIVATE CLIENT GROUP)

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- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
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- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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