

CMP: INR 181

Rating: Buy

Target Price: INR 217

Stock Info

BSE	532648
NSE	CUB
Bloomberg	CUBK IN
Reuters	CUBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	740
Mkt Cap (INR Mn)	128,598
52w H/L (INR)	188/ 131
Avg Yearly Vol (in 000')	4,108

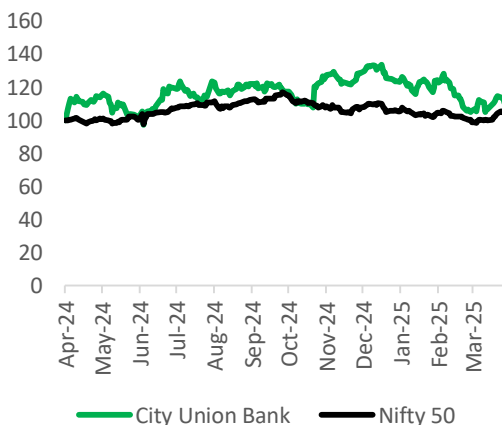
Shareholding Pattern %

(As on Mar, 2025)

Promoters	Nil
Public & Others	100

Stock Performance (%)	1m	6m	12m
CUB	7.25	-4.10	12.39
Nifty 50	4.32	-8.83	4.71

CUB Vs Nifty



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Net Interest Income stood at INR 6,003 Mn compared to our estimate of INR 6376 Mn, up by 2.1% QoQ / 9.8% YoY. PPOP came in at INR 4,410 Mn vs estimate of INR 4,730 Mn, up by 1.1% QoQ / 25.3% YoY. Provisions were at INR 780 Mn vs estimate of INR 788 Mn, up by 4.0% QoQ / 143.8% YoY. PAT stood at INR 2,880 Mn vs estimate of INR 3,123 Mn, up by 0.69% QoQ / 13.0% YoY. GNPA stood at 3.09% vs estimate of 3.25%, down by 27bps QoQ & 90 bps YoY. NNPA stood at 1.25% vs estimate of 1.38%, down by 17bps QoQ & 72 bps YoY. Deposits increased to INR 6,35,260 Mn vs estimate of INR 6,06,022 Mn, up by 9.0% QoQ & 14.1% YoY. Advances increased to INR 5,20,813 Mn vs estimate of INR 5,54,499 Mn, up by 3.3% QoQ & 12.0% YoY.

Significant Improvement in Asset Quality: The bank made substantial strides in improving its asset quality during FY25. Gross NPA reduced significantly by 90 bps YoY, closing at 3.09% compared to 3.99% in FY24. Net NPA also saw a marked improvement, falling 72 bps to 1.25% (INR 6,530 Mn) from 1.97% (INR 8,990 Mn) in the previous year. This improvement was driven by a reduction in slippages, which stood at INR 8,150 Mn (1.54% of advances) for FY25, down from 2.18% in FY24 and better than the pre-COVID average of around 2%. Furthermore, recoveries consistently outpaced slippages, with total recoveries in FY25 reaching INR 10,420 Mn (INR 8,340 Mn from live NPAs) against the INR 8,150 Mn slippage. The PCR also strengthened, with PCR (including technical write-offs) improving to 78% from 72% and PCR (excluding technical write-offs) rising to 60% from 52%.

Stable Margins and Healthy Profitability: CUB maintained stable NIMs throughout FY25, reporting a NIM of 3.6% for both Q4 and FY25. Management guided for NIMs to remain within a stable range of 3.5% to 3.7% (3.6% +/- 10 bps) going forward. This stability is expected despite potential rate cuts, aided by strategic moves like shifting gold loans to fixed rates and recent reductions in savings bank and term deposit rates, the benefits of which are expected to accrue in coming quarters. PAT for FY25 grew by 11% to INR 11,240 Mn from INR 10,160 Mn in FY24. The bank also reported a ROA of 1.55% for FY25, aligning with its long-term average target. Other income saw strong growth of 21%, driven by a 79% increase in insurance commission and a 67% rise in loan processing fees.

Valuation & View: The Bank anticipates a positive year ahead, expecting to maintain its recent 14% credit growth, potentially growing 2-3% above the industry average, driven by MSME, gold loans, and an increasing contribution from retail lending. It also aims to keep improving its asset quality with lower bad loans (NNPA between 1-1.25%) and a better PCR. While the cost-to-income ratio might initially be around 48-50% due to investments, it's expected to decrease as digital initiatives yield results. NIMs is guided to be stable at around 3.6% +/- 0.10%. **We upgrade our rating on the stock to BUY with a target price of INR 217, valuing the bank at P/ABV of 1.35x FY28E ABV.**

Financial Snapshot:

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
NII	2,163	2,123	2,316	2,794	3,078	3,428
PPOP	1,818	1,517	1,679	2,083	2,213	2,521
PAT	937	1,016	1,124	1,162	1,201	1,422
NIM (%)	3.5	3.7	3.6	3.7	3.7	3.7
RoA (%)	1.5	1.5	1.5	1.5	1.4	1.4
RoE (%)	13.4	12.8	12.6	11.6	10.7	11.3
P / ABV (x)	2.0	1.7	1.5	1.3	1.2	1.1

Source: Arihant Research, Company Filings

Quarterly Result Update (INR Mn)	Q4FY25	Q3FY25	Q4FY24	Q-o-Q	Y-o-Y
Interest Income	15,327	14,787	13,741	3.7%	11.5%
Interest Expended	9,324	8,910	8,275	4.6%	12.7%
Net Interest Income	6,003	5,877	5,466	2.1%	9.8%
Other Income	2,512	2,284	1,752	10.0%	43.4%
Operating Income	8,515	8,161	7,218	4.3%	18.0%
Operating Expenses	4,106	3,801	3,700	8.0%	11.0%
Employee Expenses	1,965	1,785	1,678	10.1%	17.1%
Other Operating Expenses	2,140	2,016	2,022	6.2%	5.9%
PPOP	4,410	4,360	3,518	1.1%	25.3%
Provisions	780	750	320	4.0%	143.8%
PBT	3,630	3,610	3,198	0.5%	13.5%
Tax Expenses	750	750	650	0.0%	15.4%
Net Income	2,880	2,860	2,548	0.7%	13.0%
Balance Sheet Analysis					
Advances	5,20,813	5,04,090	4,64,815	3.3%	12.0%
Deposits	6,35,260	5,82,713	5,56,566	9.0%	14.1%
CASA Deposits	1,81,189	1,61,319	1,70,502	12.3%	6.3%
CASA (%)	28.52%	27.68%	30.63%	84bps	-211bps
CAR (%)	23.75%	22.26%	23.73%	149bps	2bps
Spreads					
NIMs (%)	3.60%	3.58%	3.67%	2bps	-7bps
Cost of Funds	4.95%	4.88%	4.80%	7bps	15bps
Yield on Average Advances	9.93%	9.81%	9.85%	12bps	8bps
Asset Quality					
GNPA	16,382	16,930	18,544	-3.2%	-11.7%
NNPA	6,531	7,015	8,987	-6.9%	-27.3%
GNPA (%)	3.09%	3.36%	3.99%	-27bps	-90bps
NNPA (%)	1.25%	1.42%	1.97%	-17bps	-72bps
Provision Coverage Ratio	78%	81%	86%	-347bps	-844bps
Returns & Expenses					
RoA	1.53%	1.57%	1.48%	-4bps	5bps
RoE	12.60%	12.64%	12.39%	-4bps	21bps
Cost / Income Ratio	48.22%	46.58%	51.26%	164bps	-304bps

Source: Arianth Research, Company Filings

Q4FY25 Conference Call Highlights:**Growth Outlook**

- Expect credit growth to be 2-3% above systemic growth in FY26. Current credit growth is mainly from MSME core business and gold loans.
- The retail journey started in the H2 of the last year and is expected to significantly contribute to credit growth in FY26.
- The trend of reduced slippages and improved recovery is expected to continue in FY25.
- Expect NIM to be maintained around 3.6% +/- 10 bps. Reduced savings bank rates by 25 bps and term deposit rates in April, the benefits of which will reflect in coming quarters.
- Gold loans have been migrated to a fixed rate from a floating rate, anticipating a decreasing interest rate cycle, which will act as a cushion. About 48% of total exposure is to EBLR.
- MSME outstanding growth was 23% for FY25. ~INR 40,000 Mn of the total INR 65,000 Mn credit growth in FY25 came from MSME.

Financial Highlights and Ratios

- Increased by 14% to INR 635,260 Mn for FY25 from INR 556,570 Mn in FY24. CASA deposits rose to INR 181,190 Mn in FY25 from INR 170,500 Mn, with the CASA to total deposit ratio at 29%. Deposit growth was 11% in Q3 FY25 and 14% in Q4 FY25.
- Registered a 14% growth in gross advances for FY25, increasing to INR 530,660 Mn from INR 464,810 Mn in FY24.
- Ended FY25 with slippages of INR 8,150 Mn (1.54%), down from 2.18% in the previous year and in line with the initial target of ~INR. 8,000 Mn.
- Total recoveries in Q4FY25 were INR 2,910 Mn (INR 2,380 Mn from live NPAs, INR 530 Mn from technically written-off accounts), exceeding slippages of INR 2,590 Mn. For FY25, total recovery was INR 10,420 Mn (INR 8,340 Mn from live NPAs, INR 2,080 Mn from technically written-off accounts).

Other Highlights

- Sri V. Ramesh was appointed as Executive Director on February 21, 2025. The bank currently has 2 full-time directors in addition to the MD & CEO.
- The INR 12,000 Mn in personal loans mentioned are not unsecured; they are loans given to existing MSME borrowers with existing collateral.
- The bank has aligned with industry-level credit growth and expects this to stabilize and improve, contingent on a stable economic environment without geopolitical tensions.
- Achieved long-term average numbers in credit growth, PAT, ROA, and NIM.
- Management is hopeful for a better financial year in FY26 compared to FY25, assuming geopolitical situations do not worsen.
- SMA2 to Total Advances stood at 1.10% in Q4FY25, a significant improvement from 2.08% in Q4FY24.
- C/I Ratio stood at 47.77% for FY25, below the expected 48-50% due to some retail vertical expenses being postponed to FY26. CIR is expected to be around 48-50% in the FY26 and reduce thereafter.
- PCR with technical write-off improved to 78% from 72% last year. PCR without technical write-off improved to 60% for FY25 from 52% last year, achieving the desired level.
- Cost of Deposits stood at 6.02% for Q4FY25 (vs. 5.75% in Q4FY24) and 5.85% for the full year FY25 (vs. 5.59% last year).

Key Financials

Income Statement

Income Statement (Rs Cr)	2023	2024	2025A	2026E	2027E	2028E
Interest Earned	4714	5271	5834	6767	7572	8518
Interest Expended	2552	3147	3518	3973	4494	5090
Net Interest Income	2163	2123	2316	2794	3078	3428
Other Income	810	742	898	810	772	859
Fee Income	63	95	105	118	132	148
Treasury Income	0	0	483	578	525	595
Operating Income	2973	2865	3214	3605	3850	4286
Other Expenses	166	202	802	898	1006	1127
Employee Expenses	530	614	733	623	631	638
Profit before provision & tax	1818	1517	1679	2083	2213	2521
Provisions and Contingencies	641	286	262	530	607	620
Profit Before Tax	1177	1231	1417	1553	1605	1901
Provision for tax	240	215	293	391	404	478
Exp. Items	0	0	0	0	0	0
Profit After Tax	937	1016	1124	1162	1201	1422

Balance Sheet

Balance Sheet (Rs Cr)	2023	2024	2025	2026E	2027E	2028E
Sources of funds						
Share Capital	74	74	74	74	74	74
Total Reserves	7383	8327	9393	10555	11756	13178
Shareholder's Fund	7457	8401	9467	10629	11830	13252
Deposits	52398	55657	63526	71239	80713	91536
Borrowings	4688	4724	2169	2343	2530	2733
Other Liabilities & provisions	2051	2044	2461	2742	3077	3419
Total Liabilities	66594	70825	77622	86952	98149	110939
Application of Funds						
Cash & Bank	6649	6944	5291	10728	10381	9838
Investments	14333	15664	17336	12861	14570	16522
Advances	43053	45526	52081	54685	62888	72321
Fixed Assets	239	270	322	359	401	447
Other Assets	2320	2422	2593	3319	4248	5438
Total Assets	66595	70826	77623	81952	92488	104566

Source: Arihant Research, Company Filings

Ratios %

Operational Ratios (%)	2023	2024	2025	2026E	2027E	2028E
Asset Quality						
Gross NPA	4.4	4.0	3.1	3.4	3.3	3.3
Net NPA	2.4	2.0	1.2	1.5	1.7	1.9
PCR	69.0	72.0	78.0	76.0	74.0	74.0
Growth						
Advances Growth	6.7	5.7	14.4	5.0	15.0	15.0
Deposit growth	9.9	6.2	14.1	12.1	13.3	13.4
Net Profit Growth	23.3	8.3	10.6	3.5	3.3	18.4
Liquidity						
C-D Ratio	82.2	81.8	82.0	76.8	77.9	79.0
CASA	29.9	30.6	285.2	29.0	28.1	27.3
Capital Adequacy	22.3	23.7	23.8	24.3	23.5	22.9
Efficiency						
Cost Income Ratio	38.9	47.1	47.8	42.2	42.5	41.2
Operating Costs to Assets	1.7	1.9	2.0	1.9	1.8	1.7

Valuation Ratios (%)	2023	2024	2025	2026E	2027E	2028E
Spread Analysis						
Yield on Advances	9.2	9.4	9.6	10.0	10.6	10.5
Yield on Investments	6.3	6.4	6.5	8.5	8.5	8.5
Cost of Funds	4.6	5.0	5.6	5.7	5.7	5.7
Cost of Deposits	4.6	5.4	5.9	5.8	5.8	5.8
NIM	3.5	3.7	3.6	3.7	3.7	3.7
Interest Spread	4.6	4.4	4.0	4.3	4.9	4.8
Profitability						
ROE	13.4	12.8	12.6	11.6	10.7	11.3
ROA	1.5	1.5	1.5	1.5	1.4	1.4
Earnings Per Share (Rs)	12.7	13.7	15.2	15.7	16.2	19.2
Adjusted Book Value (Rs)	86.9	101.3	119.3	132.4	145.3	160.6
Valuation						
P / EPS (x)	13.9	12.8	11.6	11.2	10.9	9.2
P / ABV (x)	2.0	1.7	1.5	1.3	1.2	1.1

Source: Arian Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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