

CMP: INR 236

Rating: Buy

Target Price: INR 287

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)	174,813
52w H/L (INR)	240/ 144
Avg Yearly Vol (in 000')	2,291

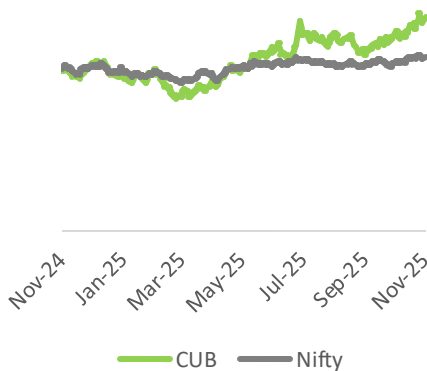
Shareholding Pattern %

(As on Sept, 2025)

Promoters	Nil
Public & Others	100

Stock Performance (%)	3m	6m	12m
CUB	8.65	6.14	7.37
Nifty 50	4.52	31.13	32.27

CUB Vs Nifty



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NII stood at INR 6,665 mn in Q2FY26, above our estimate of INR 6,376 mn, growing 6.6% QoQ and 14.4% YoY. PPOP came in at INR 4,706 mn vs our estimate of INR 4,730 mn, up 4.4% QoQ and 9.9% YoY. Provisions were lower at INR 570 mn compared to our estimate of INR 788 mn, down 18.6% QoQ and YoY. PAT stood at INR 3,286 mn, above of our estimate of INR 3,123 mn, up by 7.4% QoQ and 15.2% YoY. Asset quality improved, with GNPA at 2.42% versus an estimate of 3.25%, down 57 bps QoQ and 112 bps YoY, while NNPA declined to 0.90% versus an estimate of 1.38%, down 30 bps QoQ and 72 bps YoY. Advances grew to INR 566,809 mn in Q2FY26, up 4.9% QoQ and 18.7% YoY, reflecting healthy credit momentum.

Strong Asset Quality Improvement; GNPA Falls Below 2.5%, NNPA Below 1% : Asset quality continues to strengthen. Gross NPA improved to 2.42% in Q2FY26 from 2.99% in Q1FY26 and 3.54% in Q2FY25, while Net NPA declined to 0.90% versus 1.62% YoY; the lowest in 46 quarters. Slippages were INR 1,560 Mn while recoveries totaled INR 3,030 Mn, yielding negative credit cost. SMA levels reduced sharply to 5.6%, with SMA-2 down to 1.34% from 2.03% YoY. Recoveries are likely to surpass slippages for the next few quarters, implying stable credit cost and resilient asset quality even amid MSME growth.

Healthy Deposit Growth with CASA Revival Enhancing Liquidity Profile: Deposits grew 21% YoY to INR 694,860 Mn in Q2FY26 from INR 573,690 Mn in Q2FY25, with sequential growth of 6% (INR 37,000 Mn). The CD ratio stood at 83%. CASA growth accelerated to 16% YoY, driven by stronger branch-level focus. Cost of deposits marginally increased to 5.71% but improvement is expected further as INR 300,000 Mn (~45–50% of deposits) will reprice at lower rates in H2FY26, aiding margin expansion. We expect that the strong liability franchise provides a solid base for sustaining growth without liquidity stress.

Margin Expansion Despite Rate Volatility; NIM Improves to 3.63%: The Bank delivered a NIM of 3.63% in Q2FY26, up from 3.54% in Q1 despite a marginal decline in yield on advances to 9.66% from 9.81%. The improvement was driven by a 24 bps sequential decline in cost of deposits and repricing of high-cost borrowings from 8.1% to 6.75–7%. Fixed-rate gold loans (~30% of portfolio) provided cushion against yield compression. Interest income rose 15% YoY to INR 16,530 Mn, aided by treasury and recoveries. Stable to slightly higher NIMs (3.6% ±10 bps) is expected in H2FY26, supported by repricing benefits, lower cost of funds, and maturing of older borrowings.

Valuation & View: The bank delivered strong performance, supported by healthy loan growth, improved asset quality, and stable profitability. Credit growth is expected to stay in the mid-teens, ~2–3% above the industry average, driven by its core MSME business and a growing secured retail book. Deposits grew keeping pace with loan expansion, and it aims to maintain a C/I ratio of 48–50%. NIM is also expected to remain stable ~3.5–3.6%, aided by lower cost of deposits and repricing benefits. Asset quality remains solid, with gross NPA at 2.42% and net NPA below 1%, and recoveries expected to exceed slippages for the next few quarters. The bank is also diversifying into renewable energy financing with IFC support and plans to build a INR 25,000 Mn green loan book in the next 2–3 years. We expect that strong growth healthy margins, and stable returns may remain sustain, keeping ROA near 1.5%+ in FY26. **We upgrade our rating on the stock to BUY with a target price of INR 287, valuing the bank at P/ABV of 1.56x FY28E ABV.**

Financial Snapshot:

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
NII	2,163	2,123	2,316	2,887	3,285	3,734
PPOP	1,818	1,517	1,679	2,278	2,594	3,170
PAT	937	1,016	1,124	1,399	1,591	2,014
NIM (%)	3.5	3.7	3.6	3.6	3.7	3.7
RoA (%)	1.5	1.5	1.5	1.7	1.7	1.9
RoE (%)	13.4	12.8	12.6	13.8	13.6	15.0
P / ABV (x)	2.7	2.3	2.0	1.7	1.5	1.3

Source: Arihant Research, Company Filings

Quarterly Result Update (INR Mn)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Interest Income	16,531	16,053	14,339	3.0%	15.3%
Interest Expended	9,866	9,800	8,515	0.7%	15.9%
Net Interest Income	6,665	6,253	5,825	6.6%	14.4%
Other Income	2,591	2,439	2,263	6.3%	14.5%
Operating Income	9,257	8,692	8,088	6.5%	14.4%
Operating Expenses	4,551	4,182	3,806	8.8%	19.6%
Employee Expenses	2,244	2,006	1,835	11.8%	22.2%
Other Operating Expenses	2,307	2,176	1,971	6.0%	17.1%
PPOP	4,706	4,509	4,282	4.4%	9.9%
Provisions	570	700	700	-18.6%	-18.6%
PBT	4,136	3,809	3,582	8.6%	15.5%
Tax Expenses	850	750	730	13.3%	16.4%
Net Income	3,286	3,059	2,852	7.4%	15.2%
Balance Sheet Analysis					
Advances	5,66,809	5,40,203	4,77,715	4.9%	18.7%
Deposits	6,94,860	6,57,345	5,73,691	5.7%	21.1%
CASA Deposits	1,95,369	1,79,505	1,68,934	8.8%	15.6%
CASA (%)	28.12%	27.31%	29.45%	81bps	-133bps
CAR (%)	21.68%	23.10%	22.98%	-142bps	-130bps
Spreads					
NIMs (%)	3.63%	3.54%	3.67%	9bps	-4bps
Cost of Funds	4.77%	4.96%	4.80%	-19bps	-3bps
Yield on Average Advances	9.66%	9.81%	9.70%	-15bps	-4bps
Asset Quality					
GNPA	13,932	16,170	17,255	-13.8%	-19.3%
NNPA	5,129	6,346	7,750	-19.2%	-33.8%
GNPA (%)	2.42%	2.99%	3.54%	-57bps	-112bps
NNPA (%)	0.90%	1.20%	1.62%	-30bps	-72bps
Provision Coverage Ratio	82%	79%	71%	300bps	1100bps
Returns & Expenses					
RoA	1.59%	1.56%	1.59%	4bps	0bps
RoE	13.35%	12.85%	12.93%	50bps	42bps
Cost / Income Ratio	49.16%	48.12%	47.06%	104bps	210bps

Source: Arian Research, Company Filings

Q2FY26 Conference Call Highlights:**Asset Quality:**

- Gross NPA declined to 2.42% in Q2FY26, improving from 2.99% in Q1FY26 and 3.54% in Q2FY25, reduction of 112 bps YoY.
- Net NPA declined to 0.90% in Q2FY26, down from 1.62% in Q2FY25, falling below 1% for the first time in 46 quarters.
- Total slippages in Q2FY26 stood at INR 1,560 Mn, while recoveries were significantly higher at INR 3,030 Mn, comprising INR 2,500 Mn from live NPA accounts and INR 530 Mn from technical write-offs resulting in a negative credit cost for the quarter.
- SMA-2 declined to 1.34% of total advances in Q2FY26, compared to 2.03% in Q2FY25.
- PCR including technical write-offs improved to 82% in Q2FY26 from 75% in Q2FY25, while PCR excluding technical write-offs rose to 63% from 55% last year.

Highlights

- NIM improved to 3.63% in Q2FY26 from 3.54% in Q1FY26, supported by faster repricing of deposits and stable gold loan yields.
- MSME continues to be the key growth driver, while the secured retail portfolio is expanding steadily with the addition of new verticals.
- The gold loan portfolio remains on fixed rates, with retail gold loan yields ~ 11% and agricultural gold loan yields at ~ 10%.
- Bank continues to expand with roughly 75 new branches added per year.
- The strategic partnership with IFC, involving a USD 50 Mn term loan, will support the bank's transition to renewable energy financing and is expected to help build a INR 25,000 Mn portfolio over the next 2–2.5 years.
- The cost of deposits declined sharply to 5.71% in Q2FY26, down 24 basis points QoQ, driven by the repricing of high-cost term deposits.
- The cost-to-income ratio stood at around 49% in H1FY26 and is expected to remain within the 48–50% range for FY26.
- The secured retail vertical, launched after the BCG project, has now reached the break-even point and is expected to start contributing to ROA from FY27 onward.
- Technology expenses remain at ~ 15–20% of operating costs, in line with the industry average.

Key Financials

Income Statement

Income Statement (Rs Cr)	2023	2024	2025A	2026E	2027E	2028E
Interest Earned	4714	5271	5834	6860	7779	8824
Interest Expended	2552	3147	3518	3973	4494	5090
Net Interest Income	2163	2123	2316	2887	3285	3734
Other Income	810	742	898	913	946	1201
Fee Income	63	95	105	121	140	162
Treasury Income	0	0	483	642	606	819
Operating Income	2973	2865	3214	3799	4231	4935
Other Expenses	166	202	802	898	1006	1127
Employee Expenses	530	614	733	623	631	638
Profit before provision & tax	1818	1517	1679	2278	2594	3170
Provisions and Contingencies	641	286	262	408	468	478
Profit Before Tax	1177	1231	1417	1869	2126	2692
Provision for tax	240	215	293	471	535	677
Exp. Items	0	0	0	0	0	0
Profit After Tax	937	1016	1124	1399	1591	2014

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	10791	12382	14397
Shareholder's Fund	7457	8401	9467	10866	12457	14471
Deposits	52398	55657	63526	71239	80713	91536
Borrowings	4688	4724	2169	2343	2530	2733
Other Liabilities & provisions	2051	2044	2461	2621	2937	3277
Total Liabilities	66594	70825	77622	87067	98636	112015
Application of Funds						
Cash & Bank	6649	6944	5291	10728	10381	9838
Investments	14333	15664	17336	12861	14570	16522
Advances	43053	45526	52081	59893	68877	79209
Fixed Assets	239	270	322	359	401	447
Other Assets	2320	2422	2593	3319	4248	5438
Total Assets	66595	70826	77623	87160	98477	111453

Source: Arianth Research, Company Filings

Ratios %

Operational Ratios (%)	2023	2024	2025	2026E	2027E	2028E
Asset Quality						
Gross NPA	4.4	4.0	3.1	2.6	2.2	1.8
Net NPA	2.4	2.0	1.2	1.0	1.0	1.1
PCR	69.0	72.0	78.0	76.0	74.0	74.0
Growth						
Advances Growth	6.7	5.7	14.4	15.0	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	24.5	13.7	26.6
Liquidity						
C-D Ratio	82.2	81.8	82.0	84.1	85.3	86.5
CASA	29.9	30.6	285.2	29.0	28.1	27.3
Capital Adequacy	22.3	23.7	23.8	22.7	22.6	22.8
Efficiency						
Cost Income Ratio	38.9	47.1	47.8	40.0	38.7	35.8
Operating Costs to Assets	1.7	1.9	2.0	1.7	1.7	1.6

Valuation Ratios (%)	2023	2024	2025	2026E	2027E	2028E
Spread Analysis						
Yield on Advances	9.2	9.4	9.6	9.7	10.0	10.0
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	3.6	3.7	3.7
Interest Spread	4.6	4.4	4.0	4.0	4.3	4.3
Profitability						
ROE	13.4	12.8	12.6	13.8	13.6	15.0
ROA	1.5	1.5	1.5	1.7	1.7	1.9
Earnings Per Share (Rs)	12.7	13.7	15.2	18.9	21.5	27.2
Adjusted Book Value (Rs)	86.9	101.3	119.3	138.4	159.0	183.7
Valuation						
P / EPS (x)	18.6	17.2	15.6	12.5	11.0	8.7
P / ABV (x)	2.7	2.3	2.0	1.7	1.5	1.3

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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