

City Union Bank Limited

June 24, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Issuer rating	0.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The issuer rating assigned to City Union Bank Limited (CUB) factors in its long track record of operations with established presence in south India, comfortable capitalisation levels largely supported by internal accruals and healthy profitability levels supported by lower credit costs in the last three years. While the bank has a stable resource profile with higher retail deposits, current account saving account (CASA) remains relatively low in comparison to peers in the industry.

Rating strengths are partially offset by modest scale compared to larger private sector banks and regional and sectoral concentration of advances. Notwithstanding moderate asset quality profile compared to peers, CARE Ratings Limited (CareEdge Ratings) notes that bank's asset quality has witnessed gradual improvement post COVID with higher recoveries and lower quantum of slippages.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Significant increase in scale of operations and geographical and sectoral diversification of advances while maintaining stable asset quality and profitability.

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Decline in capital adequacy requirements (CAR) with cushion over the minimum regulatory requirement falling below 3.5%.
- Decline in asset quality with net non-performing assets (NNPA) ratio above 3.0% on a sustained basis.
- Decline in profitability with return on total assets (ROTA) below 1% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects expectations of steady growth in advances, supported by strong capitalisation and sustained profitability.

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Long Track Record of operations with established presence in south India

Incorporated in 1904, CUB has a long-standing track record of operations for over 120 years. Over the years, the bank has established strong presence in south India, particularly within Tamil Nadu. As on March 31, 2025, CUB operates across a network of 875 branches and 1,736 ATMs and has strong presence in south India with Tamil Nadu comprising 67% of advances.

Comfortable capitalisation levels supported by internal accruals

The bank's capital adequacy has remained comfortable above 15% in the last five years, supported by internal accruals and decline in the risk weighted assets. CUB's reported CAR and Tier-1 CAR (entirely Common Equity Tier [CET] I capital) stood at 23.75% and 22.70% respectively compared to CAR of 23.73% and Tier I CAR / CET I Ratio of 22.69% as on March 31, 2024. CareEdge Ratings expects the bank to maintain comfortable CAR levels in the medium term to support its growth.

Healthy profitability levels with moderation in credit cost

The bank has shown consistent improvement in profitability in the last five years ending March 31, 2025. In FY25, net interest margin (NIM) (net interest income [NII] as a percentage of average total assets) increased marginally to 3.12% (PY: 3.09%) due to increase in yield on advances. Non-interest income (as a percentage of average total assets) improved to 1.21% in FY25 from 1.08% in FY24 while operating expenses (opex; as a percentage of average total assets) increased to 2.07% in FY25 from 1.96% in FY24. Pre-provisioning operating profit (PPOP) increased to ₹ 1,679 crore in FY25 as from ₹1,517 crore in FY24 because of better NIM. With improved asset quality, credit cost improved to 0.35% in FY25 from 0.42% in FY24. The bank reported profit after tax (PAT) of ₹1,124 crore in FY25 from ₹1,016 crore in FY24. With lower credit costs, ROTA improved marginally to 1.51% in FY25 from 1.48% in FY24.

Stable resource profile; albeit lower proportion of CASA deposits

The bank's resource profile mainly consists of deposits comprising 93% of total liabilities as on March 31, 2025. Reliance on external borrowings is limited to borrowings from RBI, and other financial institutions. Total deposits grew by 14.1% in FY25 compared to industry growth of 10.4% and stood at ₹63,526 crore as on March 31, 2025, against ₹55,657 crore as on March 31, 2024. The bank has a granular deposit profile with retail term deposits comprising 75% of total deposits as on March 31, 2025 (80% of total deposits as on March 31, 2024). The proportion of low-cost CASA deposits stood 28.5% as on March 31, 2025, against 30.6% as on March 31, 2024. The bank's credit-deposit (CD) ratio stood at 82% as on March 31, 2025 (82% as on March 31, 2024).

Key weaknesses

Moderate scale and concentration in terms of sector and geography

CUB is one of the medium sized banks in India with deposits of ₹63,526 crore and gross advances of ₹53,066 crore as on March 31, 2025. The bank's operations are mainly concentrated in south India, especially Tamil Nadu. As on March 31, 2025, Tamil Nadu accounted for 67% of the total advances, whereas south India accounted for 86% of the advances. The bank has its presence in across 875 branches of which 550 branches are in Tamil Nadu as on March 31, 2025. CareEdge Ratings expects advances to remain concentrated in the medium term.

The bank has been growing steadily with gross advances in the last few years, with CAGR of 8.8% in the last three years. In FY25 the Bank's advances grew by 14.4% compared to industry growth of 11.1%. Bank remains MSME focused which comprised

~44% as on March 31, 2025, while share of Agri Loans (including gold loan) comprised 17%, retail loans (including gold loan) comprised ~29% advances and other segments comprised ~10% advances. Total Gold loan (including agriculture gold) comprised ~27% of advances. CareEdge Ratings expects momentum in growth to continue with predominant focus on micro, small and medium enterprise (MSME), followed by retail segments.

Moderate asset quality parameters

CUB witnessed moderation in asset quality in FY20-FY21, impacted by COVID-19 induced pandemic, resulting in gross NPA (GNPA) to reach 5.11% as on March 31, 2021. In the last three years, asset quality sustained improvement aided by lower slippages and recoveries.

In FY25, the bank's slippage ratio was at 1.83% compared to 2.41% for FY24, which resulted in decline in GNPA ratio to 3.09% as on March 31, 2025, from 3.99% as on March 31, 2024. In the last three years, the bank has written off advances of ~₹990 crore against recovery and upgradation of over ₹2,400 crore. The bank's provision coverage ratio (PCR) stood at 78% as on March 31, 2025 (PY: 72%) resulting in decline in NNPA ratio to 1.25% as on March 31, 2025, from 1.97% as on March 31, 2024.

Outstanding standard restructured advances declined from ₹929 crore as on March 31, 2024 (2.00% of gross advances) to ₹689 crore as on March 31, 2025 (1.30% of gross advances). As a result, the bank's gross stressed assets (GNPA + Standard Restructured advances + Security Receipts) as a percentage of gross advances improved from 6.06% as on March 31, 2024, to 4.45% as on March 31, 2025. CareEdge Ratings expects the bank's asset quality to remain stable in the medium term with continued recoveries and lower slippages.

Liquidity: Adequate

As per the bank's structural liquidity statement as on March 31, 2025, the bank had no negative cumulative mismatches up to one year. CUB's liquidity coverage ratio remained comfortable at ~135% as on March 31, 2025, against minimum regulatory requirement of 100%. The bank consistently maintains excess statutory liquidity ratio (SLR) investments, which provide a cushion to its liquidity profile. CUB had excess SLR investments of ₹7,000 crore as on March 31, 2025, aggregating 11% of net demand and time liabilities (NDTL). The bank has access to systemic liquidity by way of RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) schemes and call money market.

Environment, social, and governance (ESG) risks

Given that CUB is engaged in the lending business, it is indirectly exposed to environmental risks through its portfolio of assets. With financial inclusion being the prime agenda, the banking sector has a social impact on the economy. CUB is driving energy efficiency across all branches and plans to deploy solar panels in branches owned by the bank and considering rainwater harvesting subject to feasibility at its branches. The bank is committed to reduce carbon footprint by digitising its lending process and minimise paper consumption to a greater extent. The bank actively supports community development through healthcare initiatives, educational infrastructure and technology enhancement, and financial inclusion programs. It also invests in employee growth by facilitating training at premier institutions, alongside in-house programs at its staff colleges to promote professional and personal advancement. On the governance front, the board of the bank comprises 11 directors, of which eight directors are independent including a women director.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Banks](#)

[Financial Ratios - Financial Sector](#)

[Issuer Rating](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

Incorporated in 1904, CUB has a long-standing track record of operations for over 120 years. Over the years, the bank has established strong presence in south India, particularly within Tamil Nadu. As on March 31, 2024, bank has network of 875 branches and 1,736 ATMs spread across the country. The total business of the bank stood at ₹1,15,607 crore as on March 31, 2025, with deposits of ₹63,526 crore and net advances of ₹52,081 crore.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	5,525	6,012	6,732
PAT	938	1,016	1,124
Total Assets	66,595	70,826	77,529
Net NPA (%)	2.36	1.97	1.25
ROTA (%)	1.46	1.48	1.51

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Limited:

Name of Director	Designation of Director
Gurumoorthy Mahalingam	Non-Executive - Independent Director

Gurumoorthy Mahalingam, who is Non-executive Chairman on the Board of City Union Bank Limited, is Non-executive Independent Director of CARE Ratings Limited. Independent/Non-executive Directors of CARE Ratings Limited are not part of CARE Rating Limited's Rating Committee and do not participate in the rating process.

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AA-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AA-; Stable	-	-	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated:** Not applicable**Annexure-5: Lender details**To view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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