

January 29, 2007

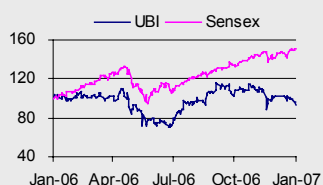
### Stock Details

<b>Recommendation</b>	<b>BUY</b>
Target Price	Rs150
CMP	Rs112
Upside	34%
52 Week H/L	Rs141/81
Avg. Volume (6m)	1.3mn
Market Cap	Rs57bn
Face Value	Rs10
BSE Code	532477
NSE Code	UNIONBANK
Bloomberg Code	UNBK@IN
Reuters Code	UNBK.BO

### Share Holding Pattern

	Sep' 06	Dec' 06
Promoter	55.4	55.4
Institutions	8.7	9.1
FII	19.9	19.7
Public & Others	16.0	15.8

### Relative performance chart



### Analyst

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*Profit growth was far above expectations though mainly through other income. Net interest margins suffered due to rising deposit cost despite contained loan growth of 26.5% and deposit growth of mere 9.6%. Lower pressure on funding helped grow CASA to 34.4%. Post raising of perpetual tier I debt and tier II bonds, Capital adequacy constraints are also behind us. The only weak link for an otherwise 17.4% average ROE bank remains UBI's low fee/ Assets proportion. We continue to maintain our BUY rating on the stock with a price target of Rs150, implying an upside potential of 34%.*

### Result update

#### Net Interest margin suffers yoy though improves sequentially

Lower loan growth, along with less pressure on funding cost due to better liquidity position on account of bonds raised in Q2 FY07, helped UBI improve its NIM by 23bps to 2.99% as against 2.76% in Q2 FY07. However, on a yoy basis NIMs were down by 12bps due to the comparatively higher funding cost.

#### Contained business growth should help improve margins in the future

Unlike other large banks UBI has a lower share of CASA deposits in the range of 34%, as against top 3 PSU Banks having CASA in the range of 40-42%. As a result, UBI's funding cost growth is higher, exerting pressure on margins. However, the bank has contained its loan growth to 26.5%, lower than the industry average of around 30%. This is on the back of lower growth in retail and agriculture lending which grew by 23.5% and 23.2% respectively. SME growth though remained strong at 27.3%. Slowdown in loan growth is in line with UBI's year end loan growth target of 25%, which should help the bank improve margin over the next few quarters.

#### Asset quality improvement over Q2 FY07 by Rs1bn

Both gross as well as net NPAs fell by Rs1bn to Rs19.0bn and Rs6.4bn respectively sequentially over Q2 FY07. On a proportionate basis though gross NPAs remained stable at 3.27%, while net NPAs fell by 12bps to 1.12% sequentially. Improvement in the asset quality has been on account of cash recoveries. The Bank has made cash recoveries of Rs5.7bn in the nine months out of which Rs2bn were made in Q3 FY07. Corresponding figures for last year nine months stood at Rs4bn.

#### No dilution in the near term as tier I currently at 8%; likely to improve valuations

Post the Bank's perpetual bond issue, tier I ratio has now climbed up to 8.1%, with tier II ratio at 5.2%. As a result we do not foresee any equity dilution over the next 24 months. This is likely to improve valuations for the bank in line with its 17.4% average ROE.

### Table: Valuation summary

	FY05	FY06	FY07E	FY08E	FY09E
Net Profit (Rs mn)	7,194	6,752	8,412	9,615	10,930
Growth (%)	1.0	(6.1)	24.6	14.3	13.7
EPS (Rs)	15.6	13.4	16.7	19.0	21.6
ROAA (%)	1.1	0.8	0.9	0.9	0.8
ROE (%)	21.5	16.5	17.3	17.4	17.4
PE (x)	7.2	8.4	6.7	5.9	5.2
P/ Bv (x)	1.4	1.2	1.1	1.0	0.8
P/ Adj Bv (x)	2.0	1.5	1.4	1.3	1.1

Source: Company data, India Infoline estimates

**Table: Quarterly financials**

	Q3 FY07	Q3 FY06	Growth	Q2 FY07	Growth	FY07E	FY06	Growth
(Rs mn)	(3)	(3)	(%)	(3)	(%)	(12)	(12)	(%)
Interest Earned	18,492	15,135	22.2	17,724	4.3	72,035	58,637	22.8
Interest Expended	(11,633)	(8,741)	33.1	(11,449)	1.6	(45,179)	(34,894)	29.5
Net Interest Income	6,859	6,394	7.3	6,275	9.3	26,856	23,743	13.1
Other Income	2,052	1,390	47.6	1,918	7.0	7,385	6,251	18.1
Net Total Income	8,911	7,784	14.5	8,193	8.8	34,241	29,994	14.2
Operating Expenses	(3,860)	(3,501)	10.3	(3,910)	(1.3)	(15,558)	(14,024)	10.9
Cost/ Income	43.3	45.0		47.7		45.4	46.8	
Pre Provisioning Profits	5,051	4,283	17.9	4,283	17.9	18,683	15,970	17.0
Provisions	(1,426)	(1,302)	9.5	(1,220)	16.9	(6,033)	(7,023)	(14.1)
Profit Before Tax	3,625	2,981	21.6	3,063	18.3	12,650	8,946	41.4
Tax	(1,067)	(690)	54.6	(1,122)	(4.9)	(4,238)	(2,195)	93.1
Profit After Tax	2,558	2,291	11.7	1,942	31.8	8,412	6,752	24.6

Source: Company data, India Infoline estimates

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