

Industry : Banking

CMP : Rs.106.15

Price Target : Rs.141

Buy

 Analyst:
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Current

Recommendation	BUY
CMP (INR)	133.75
Target Price (INR)	141.00

Key Data

Bloomberg	UNBK@IN
Reuters Code	UNBK.BO
BSE Code	532477
NSE Code	UNIONBANK
Face Value	10.00
Market Cap. (INR bn)	53.62
52 Week High (INR)	142.00
52 Week Low (INR)	80.50

Scrip Scan

Equity Rs.mn	5051.20
FY07E EPS	15.50
FY08E EPS	18.3
FY07E Adj BV	83.60
FY08E Adj BV	94.20

Shareholding (31.12.06) (%)

Promoters	55.43
FII	19.67
FI	9.15
Public	15.75
Grand Total	100.00

Highlights for the quarter

- UBI reported lower than expected business growth of 11.9% y-o-y at Rs.1355.95bn. Deposits declined by 1.6% y-o-y at Rs.772.92bn and advances declined by 5.1% y-o-y at Rs.583.03bn. CASA mix was enhanced to 34.9% from 32.7% in the previous year. Retail and agriculture loans increased by 23% while SME advances rose by 27% y-o-y.
- NIMs for Q3FY07 improved to 2.99% from 2.76% in Q2FY07 on the back of improvement in yield on advances from 8.59% to 8.72% q-o-q and stability in cost of deposits from 5.14% to 5.15% q-o-q. NII growth stood at 7.3% y-o-y and 9.3% q-o-q. Cost/income ratio was enhanced from 45% to 43.3% y-o-y.
- Net profit of Rs.2558.4mn posted 11.7% y-o-y growth as a result of higher provisioning at Rs.1425.9mn.
- CAR stood at 13.2% for Q3FY07 with Tier I at 8.06%
- Asset quality was maintained with provision coverage at 66.4%. Gross and net NPA levels were 3.27% and 1.12% respectively on the back of good recoveries of Rs.2020mn.
- The bank added 77 branches and 76 ATMs during the quarter and brought 144 branches under CBS.

Valuation:

Following the fall in NIMs in Q2FY07, UBI focused on enhancing its CASA mix to improve NIMs. At the CMP of Rs.106.15, UBI is trading at a P/Adj BV of 1.3x FY07E and 1.1x FY08E. **We maintain "BUY" with a one-year price target of Rs.141.**

Quarterly Performance
(Rs.mn)

	Q3FY07	Q3FY06	Q2FY07	9mFY07	9mFY06
Interest Earned	18,492.0	15,134.9	17,723.7	52,872.5	42,914.4
% change	22.2			23.2	
Other Income	2,052.4	1,390.1	1,917.6	5,620.4	4,129.5
Total Income	20,544.4	16,525.0	19,641.3	58,492.9	47,043.9
Interest Expense	11,633.3	8,741.2	11,448.5	33,393.8	25,150.3
% change	33.1			32.8	
Operating expenses	3,860.2	3,500.7	3,909.8	11,500.4	10,509.0
Total expenses	15,493.5	12,241.9	15,358.3	44,894.2	35,659.3
Profit prior provisioning	5,050.9	4,283.1	4,283.0	13,598.7	11,384.6
% change	17.9			19.4	
Provisions & Contingencies	1,425.9	1,302.3	1,219.6	4,224.4	4,638.9
Provision for Taxes	1,066.6	690.0	1,121.8	3,206.2	1,440.0
Net Profit	2,558.4	2,290.8	1,941.6	6,168.1	5,305.7
% change	11.7			16.3	
EPS	5.1	5.0	3.8	12.2	11.5
Equity	5,051.2	4,601.2	5,051.2	5,051.2	4,601.2
NII	6,858.7	6,393.7	6,275.2	19,478.7	17,764.1
% growth	7.3			9.7	
Deposits	772,920.0	704,693.7	785,280.0	772,920.0	704,693.7
% growth	9.7			9.7	
Advances	583,030.0	507,182.3	614,440.0	583,030.0	507,182.3
% growth	15.0			15.0	
Net NPA (%)	1.1	1.2	1.2	1.1	1.2

Income Statement

	(Rs.mn)			
	FY05	FY06	FY07E	FY08E
Interest Earned	49697.9	58637.1	71741.9	84481.8
% Ch. YoY	10.0	18.0	22.3	17.8
Interest expended	29052.4	34894.2	46808.3	56467.7
% Ch. YoY	4.5	20.1	34.1	20.6
% to Interest Earned	58.5	59.5	65.2	66.8
NII	20645.5	23742.9	24933.6	28014.1
% Ch. YoY	18.9	15.0	5.0	12.4
Other Income	7660.9	6251.0	7278.0	7931.0
% Ch. YoY	-7.9	-18.4	16.4	9.0
Total	28306.4	29993.9	32211.6	35945.1
Operating Expenses	12574.9	14024.2	15765.3	16915.0
% Ch. YoY	15.9	11.5	12.4	7.3
Operating Profit before Provisions	15731.5	15969.7	16446.3	19030.1
% Ch. YoY	6.1	1.5	3.0	15.7
% to Total Income	27.4	24.6	20.8	20.6
Provision for NPAs	9615.8	7023.4	4548.5	5020.0
Provision for Tax	-1074.7	2194.5	4045.0	4763.0
Provisions & Contingencies	8541.1	9217.9	8593.5	9783.0
% Ch. YoY	10.8	7.9	-6.8	13.8
Net Profit for the year	7190.4	6751.8	7852.8	9247.1
% Ch. YoY	1.0	-6.1	16.3	17.8

Balance Sheet

	(Rs.mn)			
	FY05	FY06	FY07E	FY08E
CAPITAL AND LIABILITIES				
Equity Capital	4,601.2	5,051.2	5,051.2	5,051.2
Reserves and Surplus	31,543.1	40,530.4	45,979.3	52,246.8
Networth	36,144.3	45,581.6	51,030.5	57,298.0
<i>Demand Deposits</i>	<i>50,101.3</i>	<i>59,785.3</i>	<i>65,763.8</i>	<i>71,024.9</i>
<i>Saving Deposits</i>	<i>151,971.2</i>	<i>179,969.2</i>	<i>207,864.4</i>	<i>239,044.1</i>
<i>Term & Other Deposits</i>	<i>416,233.3</i>	<i>501,188.4</i>	<i>601,426.1</i>	<i>727,725.6</i>
Deposits	618,305.8	740,942.9	875,054.3	1,037,794.6
Borrowings	20,209.6	39,744.0	42,303.3	43,905.4
Other Liabilities & Provisions	49,472.7	64,991.8	71,390.8	77,128.8
	724,132.4	891,260.3	1,039,779.0	1,216,126.7
ASSETS				
Cash & Balances with RBI	36,471.8	43,872.7	52,503.3	62,267.7
Balances with Banks & money at Call & Short Notice	29,247.9	20,032.4	20,611.3	24,021.0
Investments	227,927.9	259,176.5	268,141.6	292,541.6
Advances	401,050.8	533,799.5	670,661.7	807,871.7
Fixed Assets	8,237.9	8,104.2	8,711.2	8,824.8
Other Assets	21,196.1	26,275.0	19,150.0	20,600.0
	724,132.4	891,260.3	1,039,779.0	1,216,126.7

Ratios

	FY05	FY06	FY07E	FY08E
Valuation				
EPS (Rs.)	15.6	13.4	15.5	18.3
BVPS (Rs)	68.2	81.0	101.0	113.4
Adj BVPS (Rs.)	45.2	64.5	83.6	94.2
PER (x)	6.8	7.9	6.8	5.8
PEG (x)	6.9	(0.5)	0.4	0.3
P/Adj BV (x)	2.3	1.6	1.3	1.1
Dividend Yield (%)	3.3	3.3	3.8	4.7
Growth (%)				
NII	18.9	15.0	5.0	12.4
Advances	36.3	33.1	25.6	20.5
Deposits	22.3	19.8	18.1	18.6
Investments	1.6	13.7	3.5	9.1
Borrowings	116.3	96.7	6.4	3.8
Operating Profit	6.1	1.5	3.0	15.7
Net Profit	1.0	(6.1)	16.3	17.8
EPS	1.0	(14.5)	16.3	17.8
Total Funds	27.4	25.1	21.3	19.4
Profitability				
Operating Profit Margin (%)	27.4	24.6	20.8	20.6
Net Profit Margin (%)	12.5	10.4	9.9	10.0
Cost/Income (%)	44.4	46.8	48.9	47.1
Tax/PBT (%)	(17.6)	24.5	34.0	34.0
RoE (%)	22.9	16.5	16.9	17.5
RoA (%)	1.2	0.9	0.9	0.9
Other Parameters				
Net NPA/Net Advances (%)	2.6	1.6	1.3	1.2
Business per employee (Rs mn)	39.7	47.2	57.2	67.1
Profit per employee (Rs mn)	0.3	0.3	0.3	0.3
Credit-Deposit(%)	64.9	72.0	76.6	77.8
Investment / Deposit (%)	36.9	35.0	30.6	28.2
Gross Non-Performing Assets (Rs.mn)	20,581.5	20,980.5	21,180.5	21,480.5
Net Non Performing Assets (Rs.mn)	10,603.8	8,339.5	8,792.2	9,692.2
Basic Data				
Sh. Price	106.2	106.2	106.2	106.2
Market Capitalisation (Rs.mn)	48,841.7	53,618.5	53,618.5	53,618.5

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