

Date 28th January 2010

CMP: Rs. 256

Target Price Rs. 250

Stock Info

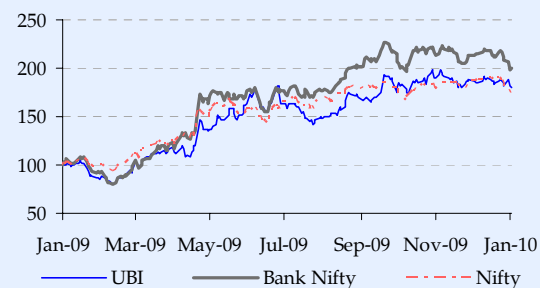
Face Value (Rs)	10
Shares O/S (mn)	505.1
Market Cap (Rs bn)	132.8
52-Week Range(H/L)	291.5/115.05
1-Year Avg Vol (mn)	1.3
Nifty	4,853
Reuters Code	UNBK.BO
Bloomberg Code	UNBK IN
Year End	Mar

(Rs mn)

Key Financials	FY08	FY09	FY10E	FY11E
Net Int. Income	29,406	38,136	40,146	51,344
YoY % change	11.6	29.7	5.3	27.9
Preprov. Profit	25,678	30,820	35,247	40,536
YoY % change	28.3	20.0	14.4	15.0
Net Profit	13,745	17,266	19,568	19,484
YoY % change	62.6	25.6	13.3	-0.4
EPS	27.2	34.2	38.7	38.6
% Growth	62.6	25.6	13.3	-0.4
Gross NPA %	2.2	2.0	2.3	2.6
Net NPA %	0.2	0.3	0.7	0.9

Key Ratio	FY08	FY09	FY10E	FY11E
RoA (%)	1.2	1.2	1.1	1.0
RoE (%)	26.5	27.2	24.9	20.6
PER (X)	9.4	7.5	6.6	6.6
PABV (X)	2.2	1.8	1.5	1.3

Relative Price Performance



A high base affect comprised of high NIMs, strong treasury gains and write back of MTM provisions in Q3FY09 caught up with Union Bank in its Q3FY10 results where the bank posted a 20.5% bottom line degrowth. NII degrew by 6% YoY but registered a strong sequential growth of 23.3% well above our estimates. CASA growth was strong at 24% YoY. Gross NPA were at 1.96% while Net NPA rose to 0.6%. We expect the bank to grow its NII, Operating Profit and Pat by 5.3%, 14.4% and 13.3% respectively. Valuations at 1.5X FY10E and 1.3X FY11E ABV are full. Maintain Marketperformer.

Advances growth at 15%

Advances grew 14.6% YoY and 7.1% QoQ. SME advances comprised of 19.4% of the overall advances while agriculture constituted 16.5% of overall advances.

Funded by liquidating investment book, CASA growth

The 7.1% sequential growth in advances was largely funded by liquidating the investment book which was down sequentially by 3.5%. Deposit growth was at 16.5% YoY and 1.4% QoQ with CASA deposits continuing to grow at 24% YoY. Driven by improved CD ratio and lower cost of funds, NIM for the quarter was at 2.71% as against 2.34% in Q2FY10 and 3.22% in Q3FY09.

Core fee income drives other income growth, costs degrow

Core Fee based income for the bank was up 32.1% YoY. Profit on sale of investments was at Rs. 1.3 bn. as against Rs. 1.0 bn. in Q3FY09. Recovery from written off accounts was higher by 37% at Rs. 370 mn. Resultantly Other Income registered a growth of 18.5%. Operating costs were lower by 7.6% YoY resulting in operating profit growing by 7% YoY.

Asset quality continues to hold up, agri NPLs not recognised

Gross NPAs at 2.0% was in line with estimates. However Net NPAs at 0.6% were higher than our estimates. The gross and Net NPA number would have been higher by Rs.400 bn. had the bank recognised the overdue amounts under the farmloan relief scheme as bad loans as most other banks have done. Restructured loans were at RS.42.4 bn. same as last quarter and constituted 4% of advances. We estimate Gross and Net NPAs rising to 2.6% and 0.9% by FY11E.

Outlook and valuation

We expect NII to grow by 5.3%, operating profit to grow by 14.4% and PAT to grow by 13.3% for FY10E. We expect Gross NPA and Net NPA to reach 2.6% and 0.9% respectively in FY11E. We maintain our target price at Rs.250. Maintain Market perform as valuations at 1.5X FY10E and 1.3X FY11E ABV are full.

Quarterly Financial Results

	Q3FY10	Q3FY09	% Change YoY	Q2FY10	% Change QoQ	9MFY10	9MFY09	% Change YoY	FY09	FY10E	FY11E
Net Interest Income	10,647	11,284	(5.6)	8,634	23.3	27297	28927	(5.6)	38,136	40,146	51,344
Other Income	4,648	3,921	18.5	5,553	(16.3)	15488	9181	68.7	14,826	19,416	18,748
Fee	2,140	1,620	32.1	2,170	(1.4)	6140	4306	42.6	6,653	8,396	9,915
Treasury profits	1,310	1,010	29.7	2,180	(39.9)	5580	920	506.5	3,215	6,100	3,500
Forex	830	1,050	(21.0)	780	6.4	2520	2234	12.8	3,386	3,420	3,933
Recoveries	370	270	37.0	420	(11.9)	1250	1130	10.6	1,480	1,500	1,400
Operating Income	15,294	15,205	0.6	14,187	7.8	42785	38107	12.3	52,961	59,562	70,092
Operating Expenses	6,152	6,656	(7.6)	6,086	1.1	17667	16402	7.7	22,141	24,315	29,555
Staff Expenses	3,245	3,225	0.6	3,059	6.1	9309	8388	11.0	11,519	12,807	15,855
Other Operating Exp.	2,907	3,432	(15.3)	3,028	(4.0)	8358	8014	4.3	10,622	11,508	13,701
Operating Profit	9,142	8,548	7.0	8,101	12.9	25118	21705	15.7	30,820	35,247	40,536
OPM%	24.3	23.4		21.5		22.4	22.8		23.0	23.2	22.6
Provisions & Contingencies	1,611	(449)	(458.5)	1,350	19.3	4864	4541	7.1	7,255	7,879	11,456
Standard Assets	70	60	16.7	20	250.0	240	870	(72.4)	800	629	956
Write offs and contingencies	430	1,600	(73.1)	1,020	(57.8)	3860	2690	43.5	5,460	6,000	10,000
Investment losses	400	(2,910)	(113.7)	(40)	(1100.0)	(990)	(60)	1550.0	(250)	-	-
Others	710	800	(11.3)	350	102.9	1750	1040	68.3	1,245	1,250	500
Taxes	2,190	2,280	(3.9)	1,700	28.8	5440	4550	19.6	6,300	7,800	9,596
Profit after Tax	5,341	6,717	(20.5)	5,051	5.7	14814	12615	17.4	17,266	19,568	19,484
PAT%	14.2	18.4		13.4		13.2	13.2		12.9	12.9	10.9
Equity Capital	5,051	5,051		5,051		5051	5051		5,051	5,051	5,051
Key Ratios											
EPS (Rs.)	10.6	13.3		10.0		29.3	25.0		34.2	38.7	38.6
Adj. Book Value (Rs.)									142.7	168.7	197.6
Net Interest margin (%)	2.7	3.2		2.3					3.0	2.6	2.8
Cost to Income Ratio (%)	40.2	43.8		42.9		41.3	43.0		41.8	40.8	42.2
RoA (%)	1.3	1.9		1.3					1.2	1.1	1.0
Valuations (X)											
P/E									7.5	6.6	6.6
P/ABV									1.8	1.5	1.3
Growth YoY (%)											
Net Interest Income									29.7	5.3	27.9
Operating Profit									20.0	14.4	15.0
PAT									25.6	13.3	(0.4)
Asset Quality											
Gross NPA %	2.0	1.7		1.9		2.0	1.7		2.0	2.3	2.6
Net NPA %	0.6	0.1		0.2		0.6	0.1		0.3	0.7	0.9

Source: Company, SBICAP Securities Research

Recent Reports

Date	Company Name	Recommendation	Recommended Price	Target Price
25-Jan-10	Paint Sector Initiating Coverage			
	Kansai Nerolac Paints Limited	Buy	1,061	1,476
	Berger Paints India Limited	Buy	58	70
20-Jan-10	Deccan Chronicle Holding Ltd	Buy	162	215
18-Dec-09	Jindal Steel & Power Ltd	Buy	707	815
4-Dec-09	Aries Agro Ltd	Buy	65	125
23-Oct-09	Container Corporation of India	Marketperform	1,110	1,130
21-Oct-09	Vinati Organics Ltd	Buy	253	375
8-Oct-09	Kansai Nerolac Paints Ltd	Buy	825	952
8-Oct-09	Berger Paints India Ltd	Buy	57	70
25-Sept-09	Lupin Ltd	Outperform	1,133	1,280
22-Sept-09	Bajaj Hindusthan (<i>Earnings Upgrade</i>)	Buy	180	300
14-Sept-09	Yes Bank	Buy	175	239
28-Aug-09	Power Transmission Sector Report			
	Jyoti Structures Ltd	Buy	146	223
	KEC International Ltd	Buy	537	692
	Kalpataru Power Transmission Ltd	Sell	853	820
5-Aug-09	Balrampur Chini Mills Limited	Buy	126	149
23-July-09	Bajaj Hindusthan Limited	Buy	171	235
4-July-09	Triveni Engineering Industries Limited	Buy	99	121
1-Jun-09	Colgate Palmolive India Ltd (Update)	Buy	475	624
28-May-09	Godrej Consumer Products Ltd (Update)	Outperform	176	195
26-May-09	Oracle Financial Services Software Ltd (Update)	Outperform	1,079	1,200
20-May-09	Godrej Consumer Products Ltd (Update)	Marketperform	160	-
18-May-09	Infosys Technologies (Update)	Marketperform	1,750	-
14-May-09	ABG Shipyard Ltd (Update)	Buy	145	265
27-Apr-09	Hindustan Unilever Ltd	Marketperform	231	-
17-Apr-09	GlaxoSmithKline Pharmaceuticals Ltd	Outperform	1,099	1,200
17-Mar-09	Mercator Lines Ltd	Buy	23	33
16-Mar-09	3i Infotech Ltd	Buy	27	45
16-Mar-09	Axis Bank	Buy	331	639
13-Mar-09	Oracle Financial Services Software Ltd	Buy	618	800
13-Mar-09	IVRCL Infrastructures & Projects Ltd	Buy	111	140
9-Mar-09	Sun Pharmaceutical Industries Ltd	Marketperform	1,021	-
15-Jan-09	Zee Entertainment Enterprises Ltd	Buy	116	167
12-Jan-09	Godrej Consumer Products Ltd	Buy	128	154
2-Jan-09	Andhra Bank	Buy	58	102
2-Jan-09	Federal Bank	Buy	165	203
31-Dec-08	Gateway Distriparks Ltd	Buy	82	105
18-Dec-08	Biocon	Marketperform	118	-
22-Nov-08	TAKE Solutions	Buy	18	50

Key to investment Ratings: Guide to the expected return relative to market over the next 12 months. 1=Buy (expected to outperform the market by 15 or more percentage points); 2=Outperform (expected to outperform the market by 5-15 percentage points); 3=Marketperform (expected to perform in line with the market); 4=Underperform (expected to underperform the market by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points)

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