

Union Bank of India (UNIBAN)

Rs 319

WHAT'S CHANGED...

PRICE TARGET Unchanged at Rs 358
 EPS (FY11E) Changed from Rs 50.3 to Rs 48.4
 EPS (FY12E) Changed from Rs 60.1 to Rs 53.1
 RATING..... Unchanged

Asset quality overhang persists...

The Q1FY11 results of Union Bank of India reflected a decent performance on the core business front but set a grim mood for asset quality in the coming quarters. Deposits grew 19% YoY (0.8% QoQ) to Rs 1,71,484 crore, loan book rose 30% YoY (5% QoQ) to Rs 1,24,743 crore. PAT grew 36% YoY to Rs 601 crore (our estimate: Rs 556 crore) driven by 65% YoY NII growth (sequential 4% dip) to Rs 1348 crore, thereby sustaining NIM sequentially at 3.03%. Other income declined 15.2% YoY to Rs 435 crore as treasury income dropped 38% YoY. We expect 19% CAGR in PAT driven by 19% CAGR in deposits, 21% CAGR in advances over FY10-12E.

Asset quality pains to impact provisioning

GNPA rose 2.4% QoQ to Rs 2736 crore (GNPA ratio @ 2.19%). NNPA shot up 19.1% QoQ to Rs 1150 crore (NNPA ratio @ 0.94%). The provision coverage slid to 71.1% from 74% in Q4FY10. Restructured assets stand at Rs 4976 crore with ~10.5% slippages so far. The management expects further slippages from restructured assets to peak at ~15% by Q3FY11. We were hopeful that asset quality conditions would improve post Q2FY11. However, with the management indicating a shift to CBS-based automated NPA processing, delinquency ratio of ~1.85% in future and with agri debt relief waiver of ~Rs 385 crore yet to be recognised, we believe pains will continue in FY11 and ease in H1FY12, as bank would have to provide higher due to increased GNPA and restructured assets. We expect GNPA @ 2.3% and NNPA of 1.2% by FY12E.

Operating expenses to remain elevated

It needs to provide Rs 1200 crore for second pension option spread over the next five years with ~Rs 60 crore each quarter. It also needs to provide Rs 290 crore for last year's pension liability. We believe higher employee costs will hike cost to income ratio to ~ 41% over FY11-12E.

Valuation

Despite asset quality strains, the bank has consistently delivered high returns, with Q1FY11 RoA@1.2% and RoE@25.7%. We are banking upon core business to deliver RoA of ~1.2% and RoE of ~23% by FY12E. CAR @ 12.59% with Tier I ratio of 7.88% implies that leverage is stretched with the bank requiring fresh capital infusion to support growth. Hence, we have factored in 10% capital dilution in FY12E and value the stock at Rs 358 (1.5x its FY12E ABV).

Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	1348.0	1328.1	817.2	1396.1	65.0	-3.4
Other Income	435.0	521.1	513.2	492.5	-15.2	-11.7
PPP	1043.7	1113.4	787.5	1147.5	32.5	-9.0
PAT	601.4	556.1	442.2	593.5	36.0	1.3

Source: Company, ICICIdirect.com Research

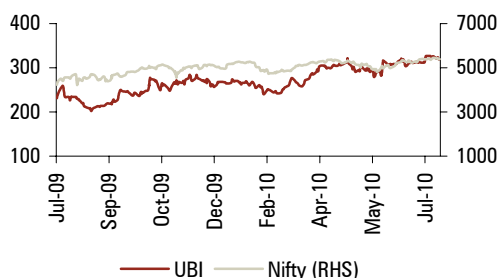
Rating matrix	
Rating	: Buy
Target	: Rs 358
Target Period	: 12 months
Potential Upside	: 12%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	3814	4192	5102	6274
PPP	3082	3659	4346	5289
PAT	1821	2170	2444	2949

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs cr)	1726.4	2074.9	2444.0	2948.7
EPS (Rs)	34.2	41.1	48.4	53.1
Growth (%)	24.5	20.2	17.8	9.7
P/E (x)	9.2	7.6	6.5	5.9
Price / Book (x)	2.2	1.8	1.5	1.2
ABVPS (Rs)	135	156	185	234
PABV (x)	2.4	2.0	1.7	1.3
GNPA (%)	2.0	2.2	2.3	2.3
NNPA (%)	0.3	0.8	1.1	1.2
RoNA (%)	1.2	1.2	1.1	1.2
RoE (%)	24.8	23.7	24.8	22.8

Stock data	
Market Capitalisation	Rs 16113 crore
GNPA (Q1FY11)	Rs 2736 crore
NNPA (Q1FY11)	Rs 1150 crore
NIM (Q1FY11)	3.03 %
52 week H/L	Rs 349/200
Equity capital	Rs 505 crore
Face value	Rs. 10
DII Holding (%)	12.2
FII Holding (%)	18.5

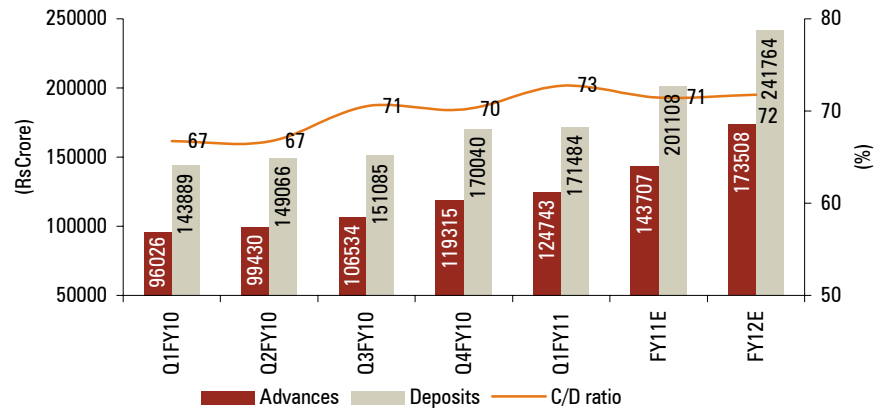
Price movement



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The C/D ratio remained higher at 73% this quarter. Going forward, we expect it to moderate to ~71%. We expect deposits and advances to register 19% and 21% CAGR over FY10-12E

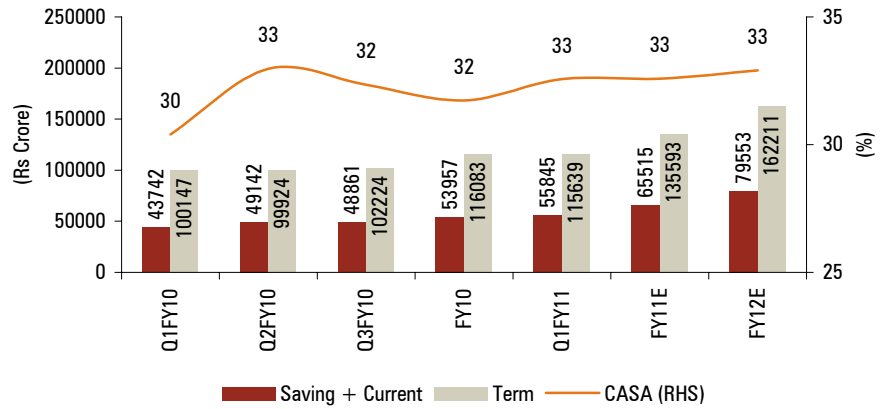
Exhibit 2: Modest business growth



Source: Company, ICICIdirect.com Research

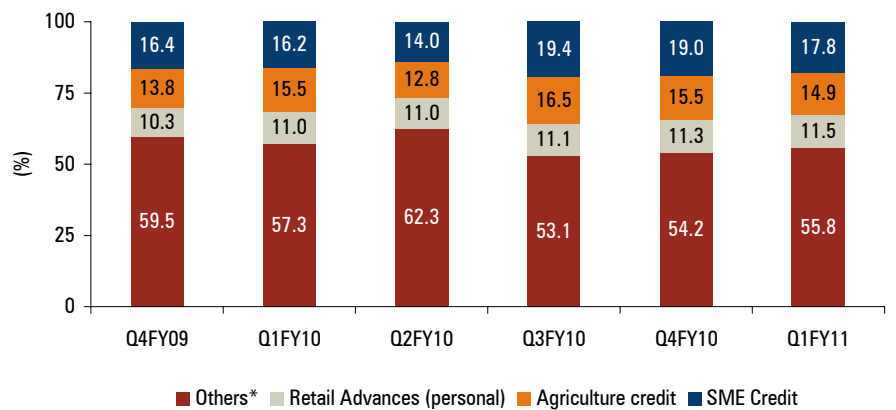
CASA improved by 83 bps QoQ to 32.6% in Q1FY11. We have estimated CASA growth of ~21% CAGR over FY10-12E

Exhibit 3: CASA to improve YoY



Source: Company, ICICIdirect.com Research

Exhibit 4: Well diversified loan book



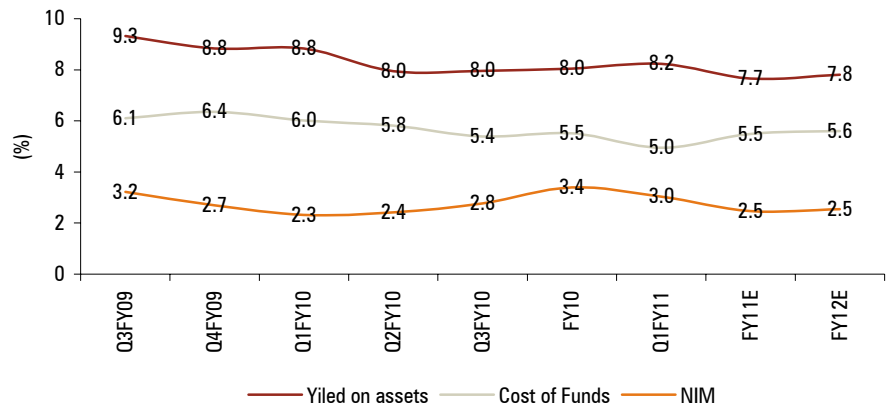
Source: Company, ICICIdirect.com Research

*Others includes Corporate

Exhibit 5: NIM to slide from current levels of 3%

We expect the NIM to inch downwards to around 2.5% by FY12E

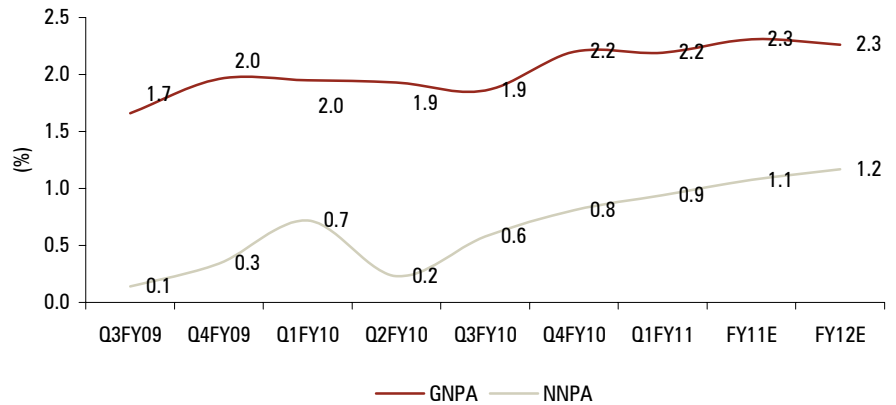
NIM improved by 71 bps YoY (slid 36 bps YoY) to 3.03% in Q1FY11 due to high NII growth of 65% YoY



Source: Company, ICICIdirect.com Research

Exhibit 6: Asset quality to be keenly watched, going ahead

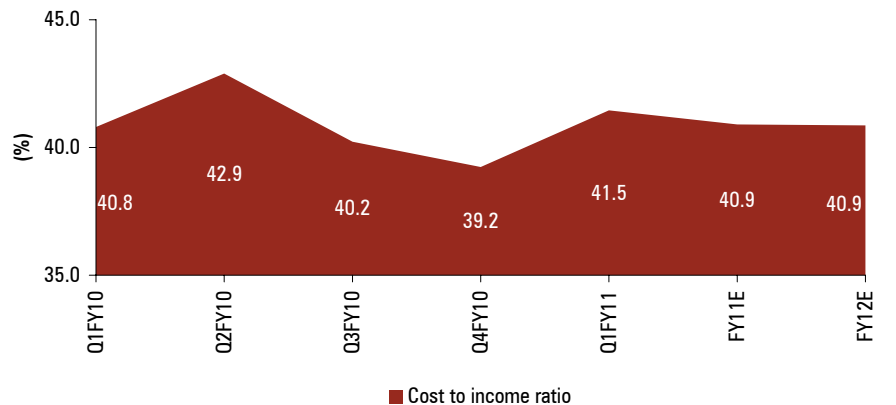
The asset quality remained a major cause for concern as the management expects further slippages from restructured assets to peak at ~15% by Q3FY11. We expect GNPA @ 2.3% and NNPA of 1.2% by FY12E



Source: Company, ICICIdirect.com Research

Exhibit 7: C/I ratio to remain higher as bank provides for gratuity and 2nd pension option

The cost to income ratio will be impacted as the bank will provide Rs 1200 crore for the second pension option over the next five years



Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	410	FY10	1741.1	33.1	12.4	2.1	0.7	12.6
		Target	373	FY11E	2872.0	54.6	7.5	1.8	1.0	18.7
Mcaps (Rs Cr)	21562	Upside (%)	-9.0	FY12E	3367.6	55.7	7.4	1.5	0.9	18.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	727	FY10	3058.3	83.7	8.7	2.2	1.2	21.9
		Target	765	FY11E	3683.2	100.8	7.2	1.8	1.2	21.9
Mcaps (Rs Cr)	26574	Upside (%)	5.2	FY12E	4373.2	119.6	6.1	1.4	1.2	21.1
Dena Bank										
Idirect Code	DENBAN	CMP	98	FY10	511.3	17.8	5.5	1.4	1.0	21.4
		Target	107	FY11E	621.0	18.2	5.4	1.2	1.0	20.3
Mcaps (Rs Cr)	2807	Upside (%)	9.4	FY12E	746.0	21.8	4.5	1.0	1.0	19.5
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	114	FY10	707.0	13.0	8.8	1.1	0.6	9.6
		Target	105	FY11E	964.1	17.7	6.5	1.3	0.7	12.8
Mcaps (Rs Cr)	6227	Upside (%)	-8.1	FY12E	1224.4	22.5	5.1	1.1	0.8	15.2
IDBI Bank										
Idirect Code	IDBI	CMP	118	FY10	1031.1	8.8	13.5	1.8	0.5	13.2
		Target	134	FY11E	1220.2	12.4	9.5	1.3	0.5	11.9
Mcaps (Rs Cr)	8582	Upside (%)	13.2	FY12E	1503.6	15.3	7.7	1.2	0.5	11.6
OBC										
Idirect Code	ORIBAN	CMP	378	FY10	1134.7	45.3	8.3	1.3	0.9	14.5
		Target	424	FY11E	1359.4	54.3	7.0	1.1	0.9	15.4
Mcaps (Rs Cr)	9469	Upside (%)	12.2	FY12E	1650.5	65.9	5.7	1.0	0.9	16.2
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1056	FY10	3905.4	123.9	8.5	2.2	1.4	23.9
		Target	1062	FY11E	4593.7	145.7	7.2	1.8	1.4	23.5
Mcaps (Rs Cr)	33282	Upside (%)	0.6	FY12E	5361.0	170.0	6.2	1.7	1.4	24.0
SBI										
Idirect Code	STABAN	CMP	2461	FY10	91.7	144.4	17.0	2.8	0.9	14.8
		Target	2556	FY11E	103.5	146.9	16.8	2.2	0.9	13.3
Mcaps (Rs Cr)	156273	Upside (%)	3.8	FY12E	127.1	180.3	13.7	2.0	0.9	13.4
Union Bank of India										
Idirect Code	UNIBAN	CMP	319	FY10	2074.9	41.1	7.8	2.0	1.2	26.2
		Target	358	FY11E	2444.0	48.4	6.6	1.7	1.1	24.8
Mcaps (Rs Cr)	16113	Upside (%)	12.2	FY12E	2948.7	53.1	6.0	1.4	1.2	22.8
Axis Bank										
Idirect Code	UTIBAN	CMP	1351	FY10	2514.5	62.1	21.8	3.5	1.7	19.2
		Target	1400	FY11E	3306.9	81.6	16.6	3.0	1.5	19.0
Mcaps (Rs Cr)	54739	Upside (%)	3.6	FY12E	4236.2	104.6	12.9	2.5	1.4	20.5
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	180	FY10	23.3	3.6	49.6	2.9	0.3	5.4
		Target	190	FY11E	61.3	7.2	25.0	2.0	0.6	9.5
Mcaps (Rs Cr)	1155	Upside (%)	5.4	FY12E	99.8	11.7	15.4	1.8	0.7	11.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	2040	FY10	2948.7	64.4	32.5	4.5	1.5	16.3
		Target	2151	FY11E	3927.6	85.8	24.4	4.0	1.6	17.2
Mcaps (Rs Cr)	95705	Upside (%)	5.4	FY12E	5078.0	110.9	18.8	3.6	1.8	19.6
Kotak Bank										
Idirect Code	KOTMAH	CMP	767	FY10	561.1	16.1	47.4	6.3	1.7	13.5
		Target	831	FY11E	793.6	21.8	35.1	4.8	1.9	15.0
Mcaps (Rs Cr)	26658	Upside (%)	8.4	FY12E	1009.7	27.7	27.6	4.3	2.0	15.7
South Indian bank										
Idirect Code	SOUINO	CMP	190	FY10	233.7	20.7	9.2	1.5	1.1	17.9
		Target	195	FY11E	272.5	24.1	7.9	1.4	1.0	17.4
Mcaps (Rs Cr)	2147	Upside (%)	2.6	FY12E	335.6	29.7	6.4	1.2	1.0	18.6
Yes Bank										
Idirect Code	YESBAN	CMP	293	FY10	477.7	14.1	20.8	3.2	1.6	20.3
		Target	316	FY11E	685.7	20.2	14.5	2.7	1.6	20.2
Mcaps (Rs Cr)	8798	Upside (%)	7.8	FY12E	885.6	26.1	11.2	2.2	1.5	21.6

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	189	FY 09	848.0	6.5	28.8	3.9	2.8	14.3
		Target	200	FY10	1062.1	8.2	23.0	3.5	3.2	15.9
Mcap (Rs Cr)	24437	Upside (%)	6.0	FY11E	1326.8	9.1	20.7	2.5	3.4	14.7
LICHF										
Idirect Code	LICHF	CMP	1131	FY 09	531.6	62.6	18.1	4.4	2.0	26.1
		Target	1161	FY10	662.1	69.7	16.2	3.0	1.9	22.7
Mcap (Rs Cr)	10739	Upside (%)	2.7	FY11E	861.9	90.8	12.5	2.5	1.9	21.9
Rel Cap										
Idirect Code	RELCAP	CMP	782	FY10	434.6	17.7	44.3	2.5	2.4	5.7
		Target	800	FY11E	771.3	31.3	25.0	2.3	4.0	9.5
Mcap (Rs Cr)	19208	Upside (%)	2.3	FY12E	761.9	31.0	25.3	2.1	3.5	8.7

Brokerage firms

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	500	FY10	244.9	30.5	16.4	1.7	5.3	11.2
		Target	455	FY11E	268.1	33.6	14.9	1.5	4.0	11.3
Mcap (Rs Cr)	3753	Upside (%)	-9.0	FY12E	288.2	36.1	13.9	1.4	3.7	11.1
India Infoline										
Idirect Code	INDINF	CMP	93	FY10	232.0	8.1	11.4	1.6	5.7	14.9
		Target	111	FY11E	244.0	8.6	10.9	1.5	4.1	15.3
Mcap (Rs Cr)	2651	Upside (%)	19.4	FY12E	258.4	9.1	10.3	1.3	4.5	14.6
MOFSL										
Idirect Code	MOTOSW	CMP	164	FY10	170.4	11.9	13.8	2.6	10.3	18.6
		Target	167	FY11E	176.7	12.1	13.6	2.2	9.5	16.4
Mcap (Rs Cr)	2346	Upside (%)	1.8	FY12E	188.2	12.9	12.7	1.9	8.8	15.0

RATING RATIONALE

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