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In Focus

Union Bank of India

Outperformer

Rs 112

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Q3 FY07 Result Update – Past excesses corrected to stabilize margins

Union Bank has reported 9.7% growth in deposits to Rs. 772.9 bn though it has reported sequential decline of 1.6%. This is largely due to retiring of some high cost deposits mobilized earlier. This has also resulted in improvement of share of low cost deposits from 32.7% a year ago to 33.5% as on Q2 FY 07 to 34.9%.

Advances to have grown by lower 12.5% to Rs. 570.4 bn. Here again bank has reported sequential decline of 7.2%. This again is due to non-renewal of low yielding corporate advances given earlier. But retail assets have grown by higher 23.6% to Rs. 130.3 bn and form 22.3% of advances against 20.8% a year ago.

This rebalancing in balance sheet has resulted in stabilizing of margins. NIM, which had come down from 3.12% in Q3 FY 06 to 3.03% in Q4 FY 06 to 2.94% in Q1 FY 07 to 2.76% in Q2 FY 07, has improved to 2.99% in Q3 FY 07. This is due to 13 bps sequential improvement in yield on advances to 8.72% against 1 bps increase in cost of deposits to 5.15%.

Despite margin improvement, poor business growth has resulted in NII going up by only 7.3% to Rs. 6859 mn in Q3 FY 07.

But better treasury profits and higher fee and other income have resulted in better net profit growth of 11.7% to Rs. 2558 mn in Q3 FY 07.

Compared to Q1 and Q2, bank has shown better sequential decline in gross as well as net NPAs in absolute terms. In % terms as well, there is a marginal improvement with gross NPAs coming down from 3.28% as on Q2 FY 07 to 3.27% as on Q3 FY 07 and net NPAs coming down from 1.24% as on Q2 FY 07 to 1.12% as on Q3 FY 07.

On account of Rs. 3000 mn mobilized as perpetual debt and Rs. 7500 mn mobilized as upper tier – II capital in Q3 FY 07, capital adequacy has improved from 10.79% as on Q2 FY 07 to 13.21% in Q3 FY 07.

Stock trades at 1.2x FY 08 ABV. On account of better capital adequacy, improvement in asset quality and stabilization of margins, we upgrade the stock to Out Performer from Market Performer earlier.

(Stock price as on January 25, 2007)



Union Bank of India – Q3 FY07 Result Update – Past excesses corrected to stabilize margins

Performance Table

(Rs m)

Y/e March	Q3 FY07	Q3 FY06	yoy gr. (%)	Q2 FY06	9M FY07	9M FY06	yoy gr. (%)	FY06	FY07E	yoy gr. (%)
Int. on Advances	12,939	9,898	30.7	12,305	36,413	27,348	33.1	37,598	50,211	33.5
Int. on Investments	5,272	4,940	6.7	5,269	15,748	14,562	8.1	19,541	21,383	9.4
Others	282	297	(5.1)	150	712	1,005	(29.2)	1,498	916	(38.8)
Total Int. Earned	18,492	15,135	22.2	17,724	52,873	42,914	23.2	58,637	72,509	23.7
Treasury Income	300	204	47.0	380	960	750	28.0	954	1,288	35.0
Non treasury non Int. Inc.	1,752	1,186	47.8	1,538	4,660	3,380	37.9	5,297	6,535	23.4
Total non interest Income	2,052	1,390	47.6	1,918	5,620	4,130	36.1	6,251	7,823	25.1
Total Income	20,544	16,525	24.3	19,641	58,493	47,044	24.3	64,888	80,332	23.8
Int. Expanded	11,633	8,741	33.1	11,449	33,394	25,150	32.8	34,894	45,708	31.0
Net Int. Income	6,859	6,394	7.3	6,275	19,479	17,764	9.7	23,743	26,801	12.9
Net Total Income	8,911	7,784	14.5	8,193	25,099	21,894	14.6	29,994	34,624	15.4
Op. expenses	3,860	3,501	10.3	3,910	11,500	10,509	9.4	14,024	15,667	11.7
Op. Profit	5,051	4,283	17.9	4,283	13,599	11,385	19.4	15,970	18,957	18.7
Core Op Profit	4,751	4,079	16.5	3,903	12,639	10,635	18.8	15,016	17,669	17.7
Provisions	1,426	1,302	9.5	1,220	4,224	4,639	(8.9)	7,023	6,294	(10.4)
PBT	3,625	2,981	21.6	3,063	9,374	6,746	39.0	8,946	12,662	41.5
Prov. for taxes	1,067	690	54.6	1,122	3,206	1,440	122.7	2,195	4,179	90.4
Net Profit	2,558	2,291	11.7	1,942	6,168	5,306	16.3	6,752	8,484	25.7
<i>Income tax rate (%)</i>	<i>29.4</i>	<i>23.1</i>		<i>36.6</i>	<i>34.2</i>	<i>21.3</i>		<i>24.5</i>	<i>33.0</i>	
EPS	5.1	5.0	1.7	3.8	12.2	11.5	5.9	14.6	16.8	15.4
<i>Int on adv % total</i>	<i>63.0</i>	<i>59.9</i>		<i>62.6</i>	<i>62.3</i>	<i>58.1</i>		<i>57.9</i>	<i>62.5</i>	
<i>Other inc. % total</i>	<i>10.0</i>	<i>8.4</i>		<i>9.8</i>	<i>9.6</i>	<i>8.8</i>		<i>9.6</i>	<i>9.7</i>	
<i>Cost/Inc. ratio (%)</i>	<i>43.3</i>	<i>45.0</i>		<i>47.7</i>	<i>45.8</i>	<i>48.0</i>		<i>46.8</i>	<i>45.2</i>	
<i>CAR (%)</i>	<i>13.2</i>	<i>10.9</i>		<i>10.8</i>	<i>13.2</i>	<i>10.9</i>		<i>11.4</i>	<i>11.0</i>	
Gross NPA	19,060	19,033		20,160	19,060	19,033		20,981	17,978	
Net NPA	6,410	5,672		7,440	6,410	5,672		8,340	6,139	
<i>% of gross NPAs</i>	<i>3.3</i>	<i>3.8</i>		<i>3.3</i>	<i>3.3</i>	<i>3.8</i>		<i>3.8</i>	<i>2.9</i>	
<i>% of net NPAs</i>	<i>1.1</i>	<i>1.2</i>		<i>1.2</i>	<i>1.1</i>	<i>1.2</i>		<i>1.6</i>	<i>1.0</i>	
Advances	570,380	507,182	12.5	614,440	570,380	507,182	12.5	533,800	613,869	15.0
Deposits	772,920	704,694	9.7	785,280	772,920	704,694	9.7	740,943	812,974	9.7



Union Bank of India – Q3 FY07 Result Update – Past excesses corrected to stabilize margins

Key Figures

(Rs m)

Y/e March	FY05	FY06	FY07E	FY08E
Market Price	112	112	112	112
Equity Capital	4,601	5,051	5,051	5,051
Market Capitalisation	51,533	56,573	56,573	56,573
Balance sheet size	724,132	891,260	1,041,944	1,184,094
<i>Market cap to balance sheet size (%)</i>	<i>7.1</i>	<i>6.3</i>	<i>5.4</i>	<i>4.8</i>
Deposits	618,306	740,943	812,974	933,069
Net Advances	401,051	533,800	613,869	705,950
Investments	227,928	259,176	303,858	345,228
Networth	36,144	45,582	51,944	59,465
NII	20,646	23,743	26,801	31,504
Operating profits	15,732	15,970	18,957	22,471
PAT	7,191	6,752	8,484	10,028
<i>PAT growth (%)</i>	<i>1.0</i>	<i>(6.1)</i>	<i>25.7</i>	<i>18.2</i>
<i>NIM (%)</i>	<i>3.3</i>	<i>3.1</i>	<i>2.9</i>	<i>3.0</i>
<i>RoA (%)</i>	<i>1.1</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>
<i>RoE (%)</i>	<i>25.0</i>	<i>18.7</i>	<i>19.2</i>	<i>19.6</i>
<i>Treasury gain as % of OP</i>	<i>27.1</i>	<i>15.4</i>	<i>16.3</i>	<i>13.4</i>
<i>Treasury gain as % of PBT</i>	<i>69.8</i>	<i>27.4</i>	<i>24.4</i>	<i>20.1</i>
<i>Cost - Income ratio (%)</i>	<i>44.4</i>	<i>46.8</i>	<i>45.2</i>	<i>44.0</i>
<i>Credit - Deposit ratio (%)</i>	<i>64.9</i>	<i>72.0</i>	<i>75.5</i>	<i>75.7</i>
Gross NPAs	20,587	20,981	17,978	19,640
Net NPAs	10,604	8,340	6,139	6,354
<i>% of Gross NPAs</i>	<i>5.0</i>	<i>3.8</i>	<i>2.9</i>	<i>2.7</i>
<i>% of Net NPA</i>	<i>2.6</i>	<i>1.6</i>	<i>1.0</i>	<i>0.9</i>

Valuation Ratios

Y/e March	FY05	FY06	FY07E	FY08E
EPS (Rs)	15.6	14.6	16.8	19.9
<i>EPS growth (%)</i>	<i>1.0</i>	<i>(6.9)</i>	<i>15.4</i>	<i>18.2</i>
BV/S (Rs)	68.2	81.0	93.6	108.5
ABV/S (Rs)	45.2	64.5	81.5	95.9
P/E (x)	7.2	7.7	6.7	5.6
P/BV (x)	1.6	1.4	1.2	1.0
P/ABV (x)	2.5	1.7	1.4	1.2
DPS (Rs)	3.5	3.5	3.7	4.4
<i>Dividend Payout ratio (%)</i>	<i>25.3</i>	<i>29.9</i>	<i>25.0</i>	<i>25.0</i>
<i>Dividend yield (%)</i>	<i>3.1</i>	<i>3.2</i>	<i>3.3</i>	<i>3.9</i>

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