

# Union Bank of India

## Strong Biz Growth; Slippages Remain A Concern

Union Bank's net profit rose 9% YoY to Rs 580 cr which was slightly below our estimates. Core income grew 48% YoY, driven by improved margins (up 67 bps YoY to 3.44%) and higher-than-industry credit growth of 25.6%. Although non interest income rose 12% YoY, core fee income growth was healthy at 19% YoY. Staff expenses grew 60% YoY, which included Rs 180 cr for gratuity and pension liability. Asset quality deteriorated marginally with gross NPAs increasing by 1.6% QoQ, while incremental slippages ratio remained above 2%. Tier-1 capital ratio is low at 7.4%.

### Key Highlights

- **Global business grew by 24.3% YoY**, with both advances and deposits growing in tandem. Advances growth was led by corporate advances, which increased 34% YoY, and retail advances which grew 29% YoY.
- **Deposit growth was robust at 24%** which is much above the industry average growth rate of ~16%. CASA deposits growth impressed at 27% YoY, which improved the CASA ratio by 93 bps to ~33.3%.
- **Asset quality:** Gross NPAs increased by 1.6% QoQ while due to lower provision, net NPAs grew 9.3% QoQ. Restructured loans as % to gross loans declined marginally (by 18 bps sequentially) to 3.91%. The bank doesn't have any meaningful exposure towards troubled sectors such as aviation, microfinance and telecom (2G).

### Valuations

Business growth remained robust with both advances and deposits growing at above industry growth rates. The mgmt is confident of further improving its CASA ratio to 35% by Mar-11. However, margins are still expected to decline due to impact of increase in term deposit rates. Although fresh slippages declined by 32% sequentially to Rs 765 cr, slippage ratio above 2% still remains above the comfort zone. We have revised our FY12 EPS estimates downwards by 9%. We have a **HOLD** rating on the stock with a Target price of Rs 341 (1.4x FY12E ABV and 8x FY12E EPS) - upside of 5% from CMP of Rs 325.

### Financial summary

Y/E	PAT (Rs cr)	FDEPS (Rs)	EPS chg (%)	P/E (x)	BV (Rs.)	Adj. BV (Rs.)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	1,727	34.2	24	9.9	140	136	2.4	2.5	27.2	1.2	0.3
2010	2,075	41.1	20	8.2	174	162	1.9	2.1	26.2	1.2	0.8
2011E	2,089	41.4	1	7.9	209	189	1.6	1.7	21.6	1	1.1
2012E	2,663	45.4	10	7.2	261	244	1.2	1.3	20.6	1.1	0.9

Source: Company, ENAM Estimates; Note: We have assumed dilution of Rs 2500 cr in FY12

<b>CMP (Rs)</b>	<b>325</b>
<b>Target price (Rs)</b>	<b>341</b>
<b>Potential upside</b>	<b>5%</b>

### Stock data

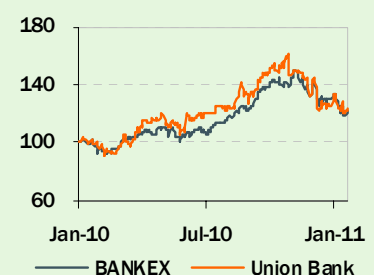
No. of shares (cr)	50.5
FV (Rs)	10/-
Market cap (Rs cr)	16,413
52 week high/low (Rs)	427/ 237
Avg. daily vol.* (shares)	8,35,105
BSE Code	532477
NSE Code	UNIONBANK
Bloomberg code	UNBK IB
Reuters Code	UNBK.BO

\* BSE & NSE 6 monthly

### Shareholding (%)

	Dec-10	QoQ Chg
Promoter	55.4	0.0
FII's	16.8	(1.8)
MFs / UTI	8.4	0.0
Banks / Fis	3.6	0.0
Others	15.8	1.7

### Relative performance



Source: Cline, ENAM Direct Research

## Union Bank of India - Results update

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	4,200	3,318	27	3,952	6	16,226	13,303	22
Interest Expended	2,584	2,229	16	2,416	7	10,092	9,110	11
<b>Net Interest Income</b>	<b>1,616</b>	<b>1,089</b>	<b>48</b>	<b>1,536</b>	<b>5</b>	<b>6,134</b>	<b>4,192</b>	<b>46</b>
Non-Interest Income	494	440	12	510	(3)	1,890	1,975	(4)
<b>Net Income</b>	<b>2,109</b>	<b>1,529</b>	<b>38</b>	<b>2,046</b>	<b>3</b>	<b>8,024</b>	<b>6,167</b>	<b>30</b>
Operating Expenses	848	615	38	915	(7)	3,382	2,508	35
<b>Operating profit</b>	<b>1,261</b>	<b>914</b>	<b>38</b>	<b>1,131</b>	<b>12</b>	<b>4,643</b>	<b>3,659</b>	<b>27</b>
Provision & Contingencies	400	161	148	599	(33)	1,570	826	90
<b>PBT</b>	<b>861</b>	<b>753</b>	<b>14</b>	<b>532</b>	<b>62</b>	<b>3,072</b>	<b>2,833</b>	<b>8</b>
Tax	282	219	29	228	23	983	758	30
<b>Net Profit</b>	<b>580</b>	<b>534</b>	<b>9</b>	<b>303</b>	<b>91</b>	<b>2,089</b>	<b>2,075</b>	<b>1</b>
No. of shares (cr)	50.5	50.5		50.5		50.5	50.5	
<b>Rep. EPS - non-annualized (Rs.)</b>	<b>11</b>	<b>11</b>	<b>9</b>	<b>6</b>	<b>91</b>	<b>41</b>	<b>41</b>	<b>1</b>
<b>Yields &amp; Margins (%)</b>								
Yield on advances	10.04	10	4 bps	9.61	43 bps	9.06	9.02	5 bps
Cost of deposit	5.49	5.77	(28) bps	5.37	12 bps	5.07	5.52	(45) bps
Net interest margin	3.44	2.77	67 bps	3.35	9 bps	2.97	2.44	54 bps
<b>Asset quality</b>								
Gross NPAs (Rs cr)	3,581	2,092	71.1	3,524	1.6	3,564	2,671	33.4
Gross NPAs (%)	2.68	1.96	72 bps	2.79	(11) bps	2.39	2.21	19 bps
Net NPAs (Rs cr)	1,597	613	160.5	1,462	9.3	1,568	965	62.4
Net NPAs (%)	1.21	0.58	63 bps	1.18	3 bps	1.07	0.81	26 bps
Provisioning coverage (%)	55.4	70.7	(1,531) bps	58.5	(313) bps	56	63.9	(786) bps
<b>Capital (%)</b>								
Tier-I	7.4	8.7	(126) bps	7.9	(42) bps	7.8	7.9	(9) bps
CAR	11.9	13.5	(158) bps	12.5	(65) bps	11.6	12.5	(89) bps
<b>Balance sheet (Rs cr)</b>								
Advances	133,800	106,500	25.6	124,100	7.8	146,900	119,300	23.1
Deposits	186,700	151,100	23.5	177,800	5	203,300	170,000	19.6
CASA (%)	33.3	32.3	93 bps	32.7	58 bps	32.6	31.7	91 bps

Source: Company, ENAM Research; Note: Full year numbers and ratios are on calculated basis

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