

January 24, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs338	Rs370
EPS change FY11E/12E (%)	NA
Target Price change (%)	-7.5
Nifty	5,743
Sensex	19,151

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(18)	5	30
Rel. to Nifty	9	(14)	(1)	14

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	UNBK@IN
Equity Capital (Rs mn)	5051
Face Value(Rs)	10
No of shares o/s (mn)	505
52 Week H/L	427/237
Market Cap (Rs bn/USD mn)	171/3,749
Daily Avg Volume (No of sh)	920878
Daily Avg Turnover (US\$m)	7.2

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	55.4	55.4	55.4
FII/NRI	16.8	18.6	18.5
Institutions	11.9	11.9	12.2
Private Corp	6.4	4.6	4.3
Public	9.4	9.5	9.6

Source: Capitaline

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com
+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com
+91 22 6612 1340

- **UBI's Q3FY11 earnings ahead of expectation led by higher NII growth and lower operating expenses**
- **The NII grew by 51.8%yoy to Rs16.2bn led by 7.8% qoq growth in advances and 22bps qoq improvement in margins at 3.4%**
- **The slippages rate shot up to 0.61% from 0.33% in Q2FY11. Includes one big ticket account of Rs~2.0bn. Slippages in Q4FY11 to remain high at same level**
- **Valuations fair at 1.9x FY11E and 1.5x FY12 ABV looking at sharp slippages and provision requirements. We Maintain HOLD rating with TP of Rs370**

NII growth ahead of expectations

UNBK's NII for Q3FY11 has grown by 51.8% yoy (5.2% qoq) to Rs16.2bn led by 7.8% qoq growth in advances and 22bps improvement in margins at 3.4%.

The other interest income in Q2FY11 includes one off income of Rs620mn, which pertains to interest on Income Tax refunds (1.2bn) and a negative impact of reversal of interest income on agriculture NPAs (620mn). Adjusted for which the NII growth would have been higher at 9.6%qoq.

Yield analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	9.5	9.0	9.0	8.9	9.5	-3	58
Yield on investments*	6.1	7.3	6.8	7.0	13.2	706	618
Yield on assets*	7.6	7.7	7.5	7.8	8.0	33	14
Cost of funds*	5.2	4.7	4.8	4.8	4.9	-26	12
NIM*	2.5	3.0	2.7	3.0	3.1	60	2
Yield of funds	8.0	8.3	7.8	8.3	8.4	37	11
Cost of funds	5.4	5.3	5.0	5.1	5.2	-23	10
NIM	2.8	3.0	3.0	3.2	3.4	67	22

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances

Advances grew by a strong 8%qoq

UBI's advances for the quarter grew by a strong 7.8% qoq to Rs1.3tn, led by 9.7% qoq increase in corporate advances and 7.5% qoq increase in Agri advances. Moreover retail and SME also reported a healthy growth of 4.5%qoq and 4.1% qoq.

Advances mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Retail	118	135	144	146	152	28.5	4.5
Agriculture	175	181	186	179	193	9.8	7.5
SME	206	227	222	228	237	14.9	4.1
Others	564	670	696	689	756	34.2	9.7
Total	1,064	1,212	1,247	1,241	1,338	25.8	7.8

Source: Company, Emkay Research

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	52,961	17,266	34.2	133.2	1.2	21.5	9.9	2.5
FY2010	62,845	20,747	41.1	155.3	1.2	21.7	8.2	2.2
FY2011E	82,329	21,689	42.9	179.8	1.0	19.1	7.9	1.9
FY2011E	95,508	27,965	55.4	228.5	1.1	20.8	6.1	1.5

Key financials – Quarterly

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	10,646	13,961	13,480	15,358	16,158	51.8	5.2	44,997	27,559	63.3
Other Income	4,650	4,923	4,350	5,100	4,930	6.0	-3.3	14,380	15,230	-5.6
Fee Income	2,140	2,043	2,000	2,360	2,300	7.5	-2.5	6,660	6,137	8.5
Net Income	15,296	18,884	17,830	20,458	21,088	37.9	3.1	59,377	42,789	38.8
Total Operating Expenses	6,152	7,411	7,393	9,149	8,483	37.9	-7.3	25,025	17,667	41.6
As % Of Net Income	40.2	39.2	41.5	44.7	40.2			42.1	41.3	
Employee Expenses	3,245	4,236	4,350	5,919	5,202	60.3	-12.1	15,471	9,309	66.2
As % Of Net Income	21.2	22.4	24.4	28.9	24.7			26.1	21.8	
Other Expenses	2,907	3,175	3,044	3,229	3,281	12.9	1.6	9,554	8,358	14.3
As % Of Net Income	19.0	16.8	17.1	15.8	15.6			16.1	19.5	
Operating Profit	9,144	11,473	10,437	11,310	12,605	37.9	11.5	34,352	25,122	36.7
As % Of Net Income	59.8	60.8	58.5	55.3	59.8			57.9	58.7	
Provisions	1,610	3,397	1,973	5,989	4,000	148.4	-33.2	11,962	4,863	146.0
Prov for NPA	430	3,130	1,000	6,290	3,610	739.5	-42.6	10,900	3,860	182.4
PBT	7,534	8,076	8,464	5,321	8,605	14.2	61.7	22,390	20,259	10.5
Total Tax	2,190	2,140	2,450	2,284	2,816	28.6	23.3	7,549	5,440	38.8
Adjusted PAT	5,344	5,936	6,014	3,037	5,789	8.3	90.6	14,841	14,819	0.1
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	5,344	5,936	6,014	3,037	5,789	8.3	90.6	14,841	14,819	0.1
Reported EPS	10.6	11.8	11.9	6.0	11.5	8.3	90.6	29.4	29.3	0.1

Source: Company, Emkay Research

CASA mix improves despite strong balance sheet growth

The CASA mix improved by a healthy 58bps to 33.3% despite strong growth in balance sheet. The advances grew by a strong 7.8%qoq to Rs1.3tn, while deposit growth was equally strong at 5.0%qoq at Rs1.9tn. The growth in CASA was primarily driven by 10.4%qoq increase in saving deposits.

CASA Mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Current Deposits	141	162	161	161	157	11.5	-2.4
Savings Deposits	348	377	397	420	464	33.4	10.4
CASA	489	540	558	581	621	27.1	6.9
Term deposits	1,022	1,161	1,156	1,197	1,246	21.8	4.1
Total Deposits	1,511	1,700	1,715	1,778	1,867	23.6	5.0
CASA (%)	32.3	31.7	32.6	32.7	33.3	93	58

Source: Company, Emkay Research

Other income growth subdued despite strong balance sheet growth

The other income growth was subdued at 6.0%yoy led by lower fee income growth, lesser recovery and lower trading gains.

Other income

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee income	2,140	2,043	2,000	2,360	2,300	7.5	-2.5	4,660	3,967	17.5
Trading gains/(losses)	1,310	1,720	1,550	1,870	1,080	-17.6	-42.2	2,950	3,400	-13.2
Forex gains/(losses)	830	583	420	430	1,240	49.4	188.4	1,670	1,740	-4.0
Recovery	370	577	380	440	310	-16.2	-29.5	750	830	-9.6
Total	4,650	4,923	4,350	5,100	4,930	6.0	-3.3	10,030	9,937	0.9

Source: Company, Emkay Research

Opex ratio stable at 40% of income despite higher employee expenses

The opex ratio for the quarter stood at 40% of income despite the fact that UNBK has provided ~Rs1.2bn for the pension liabilities and Rs635mn for gratuity liability during the quarter.

The core operating profits adjusted for trading gains and these expenses has grown by strong 70.5% yoy and 25.5% qoq.

Core operating profit grows by 70.2%yoy

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	9,144	11,473	10,437	11,310	12,605	37.9	11.5	34,352	25,122	36.7
Less: Treasury gains	1,310	1,720	1,550	1,870	1,080	-17.6	-42.2	2,950	3,400	-13.2
Pension/ Gratuity provision			1,200	1,200	1,830			3,030	0	
Core operating profit	7,834	9,753	10,087	10,640	13,355	70.5	25.5	34,432	21,722	58.5

Source: Company, Emkay Research

Higher provisioning dents net profit growth

The credit cost continues to remain higher at 1.1% (annualized) as against 0.5% in FY10. The higher credit cost has been inline with higher slippages during the quarter. As a result of higher provisioning the net profit grew by a lower 8.3%yoy. The bank provided adequately for the slippages during the quarter, as the provision cover remain stable at 70.2% (Including technical write off).

Break up of provisions

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
On NPL	430	3,130	1,000	6,290	3,750	772.1	-40.4	10,040	2,840	253.5
As % of advances	0.04	0.26	0.08	0.51	0.28			0.75	0.27	
On Standard Assets	70	-30	91	130	350	400.0	169.2	480	220	118.2
Investment Depreciation	400	-180	211	-340	60	-85.0	-117.6	-280	-950	-70.5
Others	710	477	671	-91	-160	-122.5	75.8	-251	1,403	-117.9
Total	1,610	3,397	1,973	5,989	4,000	148.4	-33.2	9,989	3,513	184.3

Source: Company, Emkay Research

Slippages continue to remain higher

The slippages rate increased substantially during the quarter to 0.61% from 0.33% in Q2FY11. This includes one big ticket account of Rs~2.0bn which slipped during the quarter. The slippages have been across segments including Agri and large corporates. The management expect the slippages to remain at the current level in next quarter as well, however to start moderating from Q1FY12. The management expects the slippage rate to halve to 1.1% in FY12 from 2.5% in FY11.

NPA profile

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	20,924	26,709	27,356	35,243	35,809	71.1	1.6
Net NPA (Rs bn)	6,132	9,653	11,496	14,620	15,974	160.5	9.3
Gross NPA (%)	2.0	2.2	2.2	2.8	2.6		
Net NPA (%)	0.6	0.8	0.9	1.2	1.2		
Net NPLs/Net worth (%)	6.0	9.3	10.4	12.9	13.7		
Provision cover (%)	70.7	63.9	58.0	58.5	55.4		

Source: Company, Emkay Research

Slippages

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Cumulative Slippages (Rs mn)	9,680	17,850	6,230	10,330	18,510	91.2	
Quarterly Slippages (Rs mn)	4,720	8,170	6,230	4,100	8,180	73.3	99.5
Cumulative Slippages (%)	0.91	1.47	0.50	0.83	1.38		
Quarterly Slippages (%)	0.44	0.67	0.50	0.33	0.61		

Source: Company, Emkay Research

Valuations and view

The stock is currently quoting at 1.9x FY11 and 1.5x FY12 ABV, which looks fair looking at higher slippages and higher provision costs. We maintain our HOLD rating while cutting our TP to Rs370 contracting our target P/ABV to 1.7x from 2.0x earlier.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	38,136	41,924	62,622	74,569
Other income	14,826	20,921	19,706	20,939
Net income	52,961	62,845	82,329	95,508
Operating expenses	22,141	25,078	34,334	34,935
Pre provision profit	30,820	37,767	47,994	60,573
PPP excl treasury	34,035	43,494	51,494	64,073
Provisions	7,255	9,440	15,133	18,202
Profit before tax	23,566	28,327	32,862	42,371
Tax	6,300	7,580	11,173	14,406
Tax rate	27%	27%	34%	34%
Profit after tax	17,266	20,747	21,689	27,965

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	5,051	5,051	5,051	5,051
Reserves	82,352	99,187	117,329	141,749
Net worth	87,404	104,238	122,381	146,800
Deposits	1,387,028	1,700,397	2,092,599	2,495,986
Borrowings	135,323	150,459	169,481	190,916
Total liabilities	1,609,755	1,955,094	2,384,460	2,833,701
Assets				
Cash and bank	159,849	157,767	203,629	242,882
Investments	393,458	509,085	666,675	779,623
Customer assets	1,001,854	1,228,103	1,441,470	1,722,774
Others	54,593	60,139	72,687	88,422
Total assets	1,609,755	1,955,094	2,384,460	2,833,701

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.7	2.4	2.9	2.9
Non-ll/avg assets	1.0	1.2	0.9	0.8
Fee income/avg assets	0.2	0.2	0.2	0.2
Opex/avg assets	1.6	1.4	1.6	1.3
Provisions/avg assets	0.6	0.6	1.1	1.1
PBT/avg assets	1.5	1.4	1.4	1.5
Tax/avg assets	0.4	0.4	0.5	0.5
RoA	1.2	1.2	1.0	1.1
RoAE	21.5	21.7	19.1	20.8
GNPA (%)	2.3	2.5	2.8	2.6
NNPA (%)	0.3	0.8	1.1	0.9

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	17,266	20,747	21,689	27,965
Shares in issue (mn)	505	505	505	505
EPS (Rs)	34.2	41.1	42.9	55.4
PER (x)	9.9	8.2	7.8	6.1
FDEPS(Rs)	34.2	41.1	42.9	55.4
FDPER (x)	9.9	8.2	7.8	6.1
Book value (Rs)	139.7	174.4	210.3	258.6
P/BV (x)	2.4	1.9	1.6	1.3
Adj book value (Rs)	133.2	155.3	179.8	228.5
P/ABV (x)	2.5	2.2	1.9	1.5
P/PPP (x)	5.5	4.5	3.5	2.8
Dividend yield (%)	1.5	1.6	1.8	1.8

Recommendation History: Union Bank of India – UNBK IN

Date	Reports	Reco	CMP	Target
27/10/2010	Union Bank of India Q2 FY11 Result Update	Hold	393	400
27/07/2010	Union Bank of India Q1FY11 Result Update	Reduce	321	300
07/05/2010	Union Bank of India Q4FY10 Result Update	Reduce	297	250
28/01/2010	Union Bank of India Q3FY10 Result Update	Reduce	263	220

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2011	State Bank of India Q3FY11 Result Update	Accumulate	2,598	3,000
24/01/2011	United Bank of India Q3FY11 Result Update	Buy	95	130
21/01/2011	Punjab National Bank Q3FY11 Result Update	Buy	1,123	1,500
21/01/2011	Bank of India Q3FY11 Result Update	Accumulate	461	510

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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