

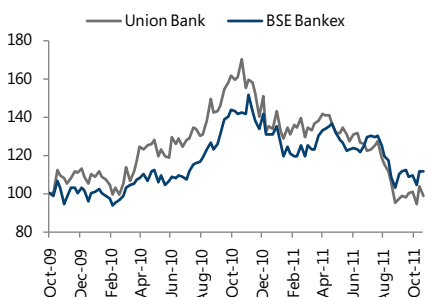
Q2FY12 - Result Update

Accumulate

Reco	Maintained
CMP	₹ 212
Target Price	₹ 240
Upside Potential	13%

Price Performance

52 wk Hi/Lo	427/209
All time Hi/Lo	427/15
6 mnth Average Vol	764171
Stock Beta	1.01



Valuation

	FY11	FY12P	FY13P
P/E (x)	5.3	5.0	4.2
P/BV (x)	1.0	0.9	0.7
P/ABV (x)	1.2	1.1	0.9
RONW (%)	18.0	16.4	16.9

Peer Valuation (FY12)

	BOI	BOB	Avg
PE	4.3	5.4	4.7
P/BV (x)	0.8	1.3	1.0

Equity Data

Market Cap. (₹ bln)	135
Face value (₹)	10
No of shares o/s (mln)	635

	Sep'10	Sep'11	Δ%
Promoters	55.43	57.07	2.96
DFI's	11.88	14.72	23.90
FII's	18.57	11.91	-35.86
Public	14.12	16.30	15.44

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Union Bank of India

Slippages does it again!!!

Union Bank of India (UBI) yet again disappointed on the asset quality front with incremental delinquencies coming at 4.9% as against 2.1% in the previous quarter driven by higher slippages coming from system based NPL recognition. So while the Net Interest Income (NII) growth was largely in-line with our estimates, the earnings growth showed huge divergence on account of 45% rise in sequential provisions.

Business growth muted

The Business of the bank grew by 12.7% y-o-y with Advance growth of 16.5% and Deposits growing by 10%. CASA ratio improved by 57bps q-o-q to 32.1%. However on YTD basis, the growth was muted at -3% decline in business. Given the stress on the asset quality and further efforts to improve the recoveries, the growth could take a backseat. The management has pruned down its Advance growth target to 17-18% for FY12 as against 19% in the previous quarter. Given this guidance, we have downgraded our business growth assumptions for FY12 as well as FY13.

Margins improve q-o-q

The Net Interest Margin (NIM) of the bank improved by 11 bps q-o-q to 3.21% on account of rise in Yield on Advances by 16bps q-o-q as against rise in Cost of Funds by 9bps. As a result, the NII growth came in marginally better than expected at 8.2%.

Systemic classification increases delinquency levels

The fresh slippages for the quarter were to the tune of ₹ 18bln of which ₹ 12bln were due to migration towards system based NPL recognition. The major contributors from this migration were Agri, priority sector and poverty alleviation related schemes. The slippage amount was higher than what was anticipated though bank has now completed its transition. On account of the above slippages, the GNPA and NNPA ratio rose sharply to 3.49% and 2.04% as against 2.07% and 0.97% in the previous quarter. Subsequently, the PCR (including w/off) fell to 60.5% as against 68.2% q-o-q. The bank has additionally restructured assets worth ₹ 7.5bln during the quarter, thus taking the total restructured assets to ₹ 65.9bln, forming 4.5% of the advances. Management has guided GNPA at 2.65% for FY12.

Valuation

We have lowered our growth assumptions given lower guidance by the management and have factored in higher credit costs while tweaking our estimates. The stock has corrected sharply post results and is quoting at 1.1x & 0.9x of its FY12 & FY13E Adjusted Book Value (ABV) respectively. However lower business guidance and volatile asset quality trend are the stress points for the bank. Maintain Accumulate rating on the stock with Target price of ₹ 240.

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Interest Income	41924	62162	69293	79228
Other Income	19747	20388	21324	23384
Pre-Provisioning Profit	34992	43050	50294	56225
Net Profit	19148	20820	22234	26234
EPS	37.9	39.7	42.4	50.0
Networth	104238	126535	144857	165872
Deposits	1700767	2024613	2348551	2771290
Advances	1193153	1509861	1766537	2084514

Exhibit 1: Q2FY12 Performance Highlights

Union Bank of India

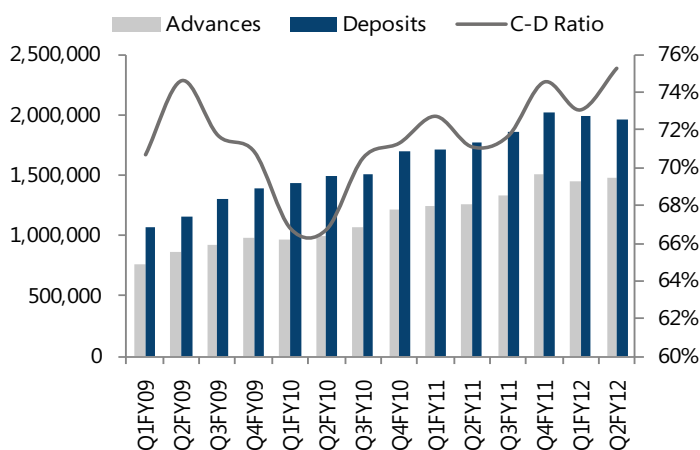
Particulars (₹ in mn)	Q2FY12	Q2FY11	(y-o-y)	(q-o-q)	H1FY12	H1FY11	(y-o-y)
Interest Income	51,104	39,522	29.3	3.7	100,262	76,379	31.3
Interest Expense	34,492	24,164	42.7	4.5	67,747	47,540	42.5
Net Interest Income (NII)	16,612	15,358	8.2	3.5	32,514	28,839	12.7
Other Income	5,009	5,096	-1.7	4.2	9,849	9,446	4.3
Net Total Income	21,622	20,455	5.7	5.4	42,363	38,285	10.7
Operating Expenses	9,571	9,149	4.6	3.4	18,655	16,542	12.8
Pre-Provisioning Profit (PPP)	12,051	11,306	6.6	45.4	23,709	21,743	9.0
Provisions & Contingencies	6,228	5,989	4.0	-21.0	10,512	7,962	32.0
PBT	5,823	5,317	9.5	-15.8	13,197	13,782	-4.2
Tax	2,297	2,284	0.6	-24.1	5,027	4,734	6.2
PAT	3,525	3,034	16.2	-24.2	8,169	9,048	-9.7
EPS	6.7	6.0	11.8	-43.4	15.6	17.9	-13.1
Cost to Income (%)	44.3	44.7	-46.0	92.0	44.0	43.2	82.8
GNPA (%)	3.5	2.8	70.0	72.0	3.5	2.8	70.0
NNPA (%)	2.0	1.2	86.0	0.2	2.0	1.2	86.0

Key Q2FY12 Result Highlights

Business growth largely stable

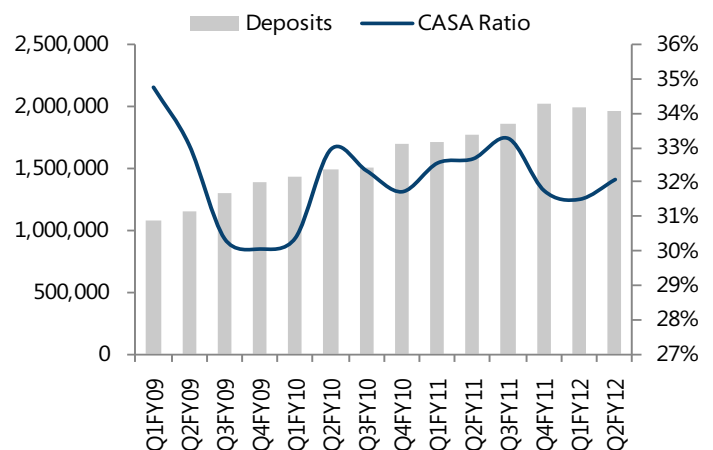
The Business of the bank grew by 12.7% y-o-y with Advance growth of 16.5% and Deposits growing by 10%. CASA ratio improved by 57bps q-o-q to 32.1%. However on YTD basis, the growth was muted at -3% decline in business. Given the stress on the asset quality and further efforts to improve the recoveries, the growth could take a backseat. In-line with the revised guidelines, we have revised our advance growth estimates to 17% for FY12E and 18% for FY13E.

Exhibit 2: Trend in Business growth



Source: Company, MSFL Research

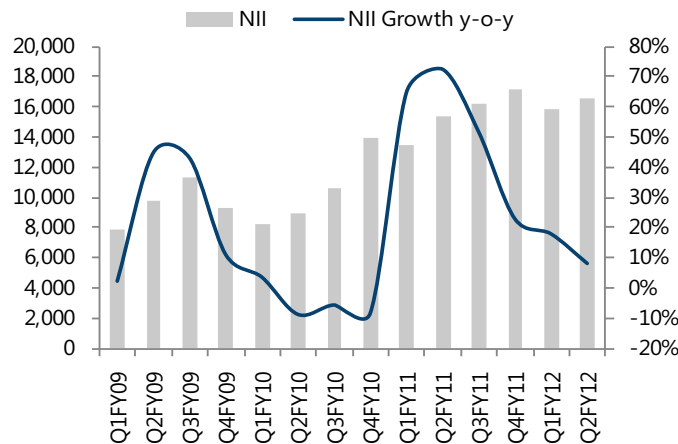
Exhibit 3: Trend in CASA ratio



NII growth largely in-line with estimates

The Net Interest Income (NII) of the bank grew by 8.2% y-o-y; largely in-line our estimates of 5.2% growth on account of sequentially improvement in margins by 11 bps. The C-D Ratio of the bank expanded by 420bps y-o-y to 75.3%.

Exhibit 4: Trend in NII growth

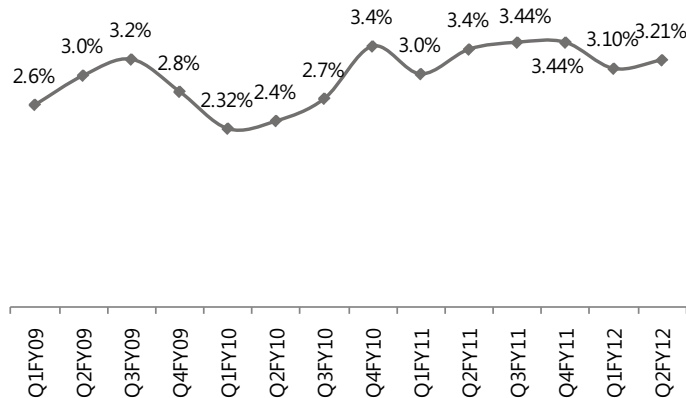


Source: Company, MSFL Research

Margins improve 11bps q-o-q

The Net Interest Margin (NIM) of the bank improved by 11 bps q-o-q at 3.21% on account of rise in Yield on Advances by 16bps q-o-q as against rise in Cost of Funds by 9bps. As a result, the NII growth came in marginally better than expected at 8.2%. Management has guided margins to be at 3.2% levels for FY12E.

Exhibit 5: Trend in NIM movement (Reported)



Source: Company, MSFL Research

Core fee based Income remains muted

The core fee based income continues to remain muted with 4.2% y-o-y growth. Treasury profits declined by 10% while Exchange profits grew by 27% y-o-y. Recoveries remained flat y-o-y, thus resulting in flat Other Income growth at -1.7%.

Exhibit 6: Break up of Other Income

	Q2FY12	Q2FY11	% y-o-y	Q1FY12	% q-o-q
CEB	2980	2860	4.2%	2100	41.9%
Treasury	1610	1790	-10.1%	1730	-6.9%
Forex	610	480	27.1%	600	1.7%
Recovery from W/o a/cs	420	440	-4.5%	590	-28.8%
Total	5009	5096	-1.7%	4840	3.5%

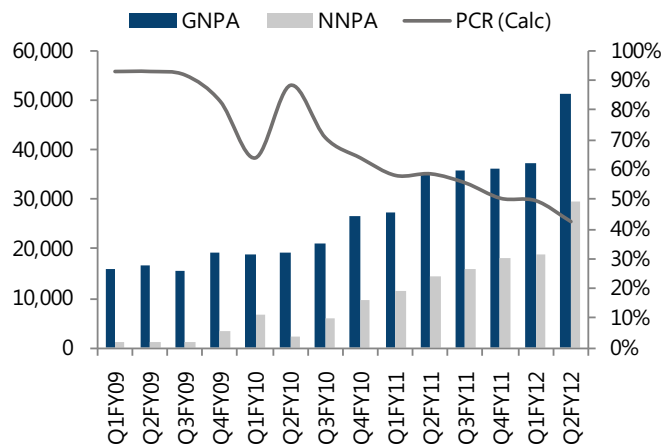
Source: Company, MSFL Research

Systemic classification increases delinquency levels

The slippages for the quarter were to the tune of ₹ 18bln of which ₹ 12bln were due to migration towards system based NPL recognition. The major contributors from this migration were Agri, priority sector and poverty alleviation related schemes. The slippage amount was higher than what was anticipated though bank has now completed its transition. On account of the above slippages, the GNPA and NNPA ratio rose sharply to 3.49% and 2.04% as against 2.07% and 0.97% in the previous quarter. Subsequently, the PCR (including w/off) fell to 60.5% as against 68.2% q-o-q. Management has guided GNPA at 2.65% for FY12; however we have build in higher provisions for NPA's for FY12E and FY13E respectively.

The bank has additionally restructured assets worth ₹ 7.5bln during the quarter, thus taking the restructured assets ₹ 65.9bln, forming 4.5% of the advances.

Exhibit 7: Trend in Asset Quality



Source: Company, MSFL Research

Other Observations

- The Cost to Income ratio of the bank stood at 44.3% as against 43.8% in the previous quarter
- Capital Adequacy Ratio (CAR) of the bank stood at 12.54% with Tier-I capital at 854% (not accounting for profits of H1FY12).

Outlook and Valuation

We have lowered our growth assumptions given lower guidance by the management and have factored in higher credit costs while tweaking our estimates. The stock has corrected sharply post results and is quoting at 1.1x & 0.9x of its FY12 & FY13E Adjusted Book Value (ABV) respectively. However lower business guidance and volatile asset quality trend are the stress points for the bank. Maintain Accumulate rating on the stock with Target price of ₹ 240.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Interest Income	118,894	133,027	164,526	201,680	242,889
Interest Expense	80,758	91,103	102,364	132,387	163,661
Net Interest Income (NII)	38,136	41,924	62,162	69,293	79,228
Other Income	14,826	19,747	20,388	21,324	23,384
Total Net Income	52,961	61,672	82,550	90,617	102,612
Operating Expenses	23,507	26,680	39,500	40,323	46,387
Pre-Provisioning Profit (PPP)	29,454	34,992	43,050	50,294	56,225
Provisions & Contingencies	7,375	8,264	13,496	18,531	18,748
PBT	22,080	26,728	29,554	31,763	37,477
Tax	6,180	7,580	8,735	9,529	11,243
PAT	15900	19148	20820	22234	26234
NIM (Calculated)	2.7%	2.4%	2.88%	2.72%	2.66%
EPS	31.5	37.9	39.7	42.4	50.0
NII Growth (%)	33.6%	9.9%	48.3%	11.5%	14.3%
PAT Growth (%)	23.7%	20.4%	8.7%	6.8%	18.0%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Liabilities					
Equity	5,051	5,051	5,243	5,243	5,243
Reserves & Surplus	82,352	99,187	121,292	139,613	160,629
Networth	87,404	104,238	126,535	144,857	165,872
Deposits	1,389,897	1,700,767	2,024,613	2,348,551	2,771,290
Borrowings	87,749	92,153	133,160	139,818	150,550
Other Liabilities & Provisions	47,574	54,830	74,427	98,396	134,396
Total Liabilities	1,609,755	1,951,618	2,359,844	2,731,621	3,222,108
Assets					
Cash & balances with RBI	89,920	124,682	176,105	145,456	161,677
Balances with banks & money at call	69,929	33,084	24,880	48,105	51,198
Investments	429,970	544,035	583,991	704,565	859,100
Advances	965,342	1,193,153	1,509,861	1,766,537	2,084,514
Fixed Assets	23,352	23,054	22,928	23,616	23,143
Other Assets	31,242	33,609	42,080	43,342	42,476
Total Assets	1,609,755	1,951,618	2,359,844	2,731,621	3,222,108

Ratios

Valuation Ratios	2009	2010	2011	2012P	2013P
P/E	6.7	5.6	5.3	5.0	4.2
P/BV	1.5	1.2	1.0	0.9	0.7
P/ABV	1.6	1.4	1.2	1.1	0.9
P/PPP	3.6	3.1	2.6	2.2	2.0
EPS	31.5	37.9	39.7	42.4	50.0
DPS	5.0	5.5	8.0	7.2	8.5
Book Value (BV)	139.7	174.4	211.3	246.3	286.3
Adjusted Book Value (ABV)	133.2	155.3	176.9	197.4	238.3

Profitability Ratios

ROE	19.8%	20.0%	18.0%	16.4%	16.9%
ROA	1.1%	1.1%	1.0%	0.9%	0.9%

Source: Company, MSFL Research

Spread Analysis	2009	2010	2011	2012P	2013P
Yield on Advances	10.4%	9.0%	8.9%	9.3%	9.5%
Yield on Investments	7.4%	7.2%	7.1%	7.2%	7.3%
Cost of Deposits	6.1%	5.5%	5.1%	5.7%	6.1%
Cost of Funds	6.1%	5.4%	5.0%	5.5%	5.9%
Net Interest Margin (NIM)	2.7%	2.4%	2.9%	2.7%	2.7%

Key Assumptions

Credit Growth	-	-	-	17.0%	18.0%
Deposit Growth	-	-	-	16.0%	18.0%
CASA Ratio	-	-	-	34.0%	34.0%
Slippage Ratio	-	-	-	2.3%	1.8%
Provisioning coverage	-	-	-	48.1%	48.6%

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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