

Date: 06th December, 2010

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UCO Bank has reported Q2FY2011 below market estimates. It posted PAT of Rs 119 Cr down 42.6% YoY basis due to higher provisioning which went up by 310% during the quarter as the bank was struggling with higher gross NPAs. On QoQ basis PAT was down 54.2%. However taking into consideration bank's three pronged strategy we believe that worst is over for the bank and we expect a better quarterly result hereafter. During the analyst meet, Management of the bank indicated three pronged strategy ie improvement of CASA, improvement in Quality of asset and better HR policies targeted at cost reduction.

Key Highlights

- Higher provisioning and higher operating expenses led to the bank's reduction in PAT to Rs 119 Cr by 42.6% on a YoY basis & 54.2% on a Q-o-Q basis. Operating expenses went up by 37.4% on YoY basis, while its Net NPA in % terms scaled higher to 1.18% as compared to 1.01% in corresponding quarter last year. However CAR improved to 13.6% as compared to 11.8% in Q2FY2010.
- UCO Bank is set to show better performance over the next 2 years as it improves NII and asset quality. We expect the stock to get re-rated significantly, as asset quality improves gradually in FY11 & FY12. Also its capital adequacy problems have been solved by the recent equity infusion by the Govt, to the tune of about Rs1125cr in the last 6 months.
- The Bank's C-I Ratio has reached an all time low of 42.8% in Q2FY11, and we expect it to go down further in FY12. The effective tax rates will go up to 33% by Q2FY12 as the bank comes under full taxation; however FY11 it would be enjoying set off against carry forward losses. On the NPA side, we expect the asset quality to improve substantially from Q2FY11 onwards, as the bank has increased focus on recoveries and also technical write-offs and NPAs likely to turn good.
- UCO Bank trades at substantial discount to its peers and deserves a better valuation in light of improving fundamentals. The stock is currently trading at 1.6x and 1.3x on P/BV basis of FY11 and FY12 book value respectively and P/ABV 1.9x & 1.5x its FY2011 & FY2012 Adjusted book value. We are extremely optimistic on the prospects of this bank hence recommend a strong BUY with a price target of Rs 215, implying about 55% return, in 12 months period.

Rating	Buy
Target Price	₹215
CMP	₹138
Upside	55%
Sensex	19966

Key Data

Bloomberg Code	UCO IN
Reuters Code	UCBK.BO
NSE Code	UCOBANK
Current Share o/s (mn)	549.4
Diluted Share o/s (mn)	549.4
MktCap (₹bn/\$mn)	76.5/1704.7
52 WK H/L (₹)	152.4/52.9
Daily Vol. (3M NSE Avg)	6438099
Face Value (₹)	10
Beta	0.94
1USD/₹	44.9

Shareholding Pattern	(%)
Promoters	63.6
FII	7.8
Others	28.6

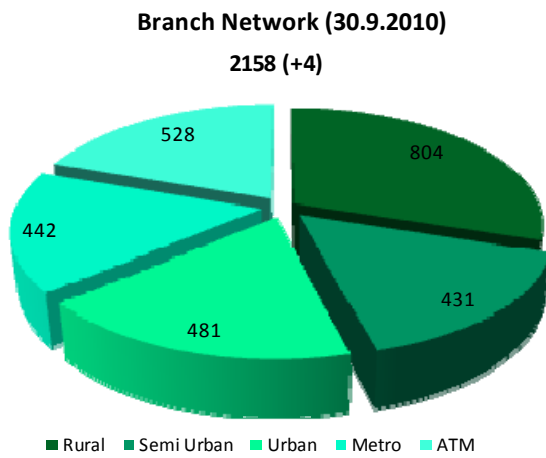
Price Performance (%)

	1M	6M	1YR
UCO	-0.1	18.0	143.7
NIFTY	-4.2	8.5	18.4

Source: Bloomberg; *As on 3rd Dec., 2010

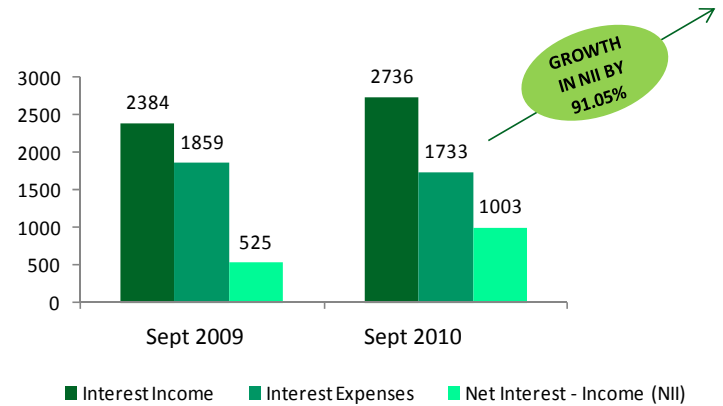
(Rs mn)					
Y/E March	Q2FY2011	Q1FY2011	QoQ growth(%)	Q2FY2010	YoY growth(%)
Interest earned	27,352.3	26,728.5	2.3	23,842.30	14.7
Other Income	2,293.1	1,898.8	20.8	2,255.90	1.6
Total Income	29,645.40	28,627.30	3.6	26,098.20	13.6
Interest expended	17,336.6	17,358.8	(0.1)	18,587.6	(6.7)
Operating Expenses	5,266.7	4,812.6	9.4	3,834.5	37.4
Total expenditure	22,603.3	22,171.4	1.9	22,422.1	0.8
Operating Profit before prov and cont	7,042.1	6,455.9	9.1	3,676.1	91.6
Provisions & contingencies	5,800.2	3,739.1	55.1	1,413.6	310.3
Exceptional items	-	-	-	-	-
PBT	1,241.9	2,716.8	(54.3)	2,262.5	(45.1)
Tax	50.0	114.7	(56.4)	185.3	(73.0)
PAT	1,191.90	2,602.10	(54.2)	2077.2	(42.6)
Equity	5,493.6	5,493.6		5,493.6	
EPS	2.17	4.7	(54.2)	3.8	(42.6)
Capital Adequacy Ratio (%) (Basel-II)	13.60	13.61		11.8	
Gross NPA	20,580.3	19,290.9	6.7	15,294.4	34.6
Net NPA	10,052.60	9,190.80	9.4	7,095.5	41.7
% of gross NPA	2.39	2.36		2.16	
%of Net NPA	1.18	1.14		1.01	

Exhibit 1: Branch Network



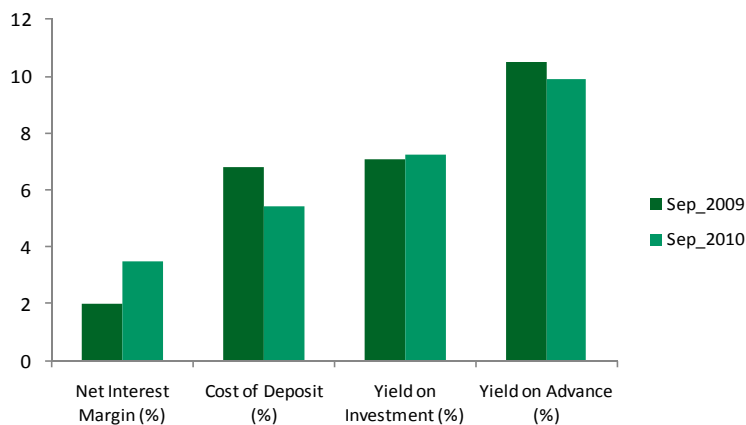
Source: Company, Networth Research

Exhibit 2: Growth of Trend in Net Interest Income



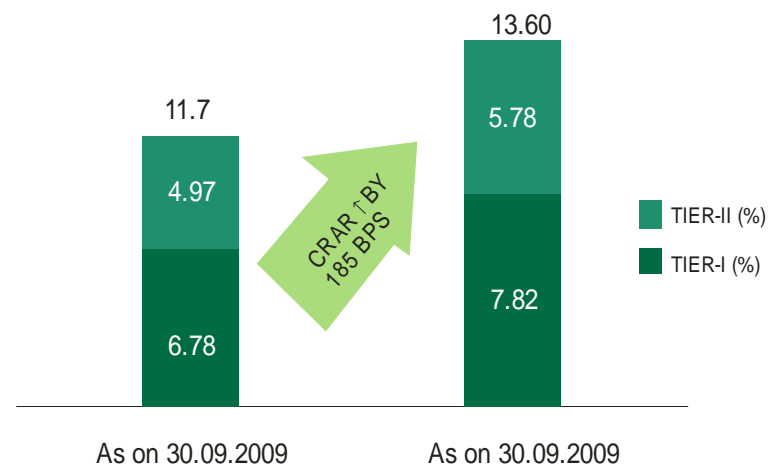
Source: Company, Networth Research

Exhibit 3: Performance Ratios



Source: Company, Networth Research

Exhibit 4: CAR trend



Source: Company, Networth Research

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Key to NETWORKTH Investment Rankings

Buy: Upside by >15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by >15

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