



Between the Lines

Daily Corporate News Analysis

October 9th 2009

Union Bank Of India

Update

Market Out Performer ; BUY

Company Info	
CMP	237
Target Price	265
Sector	Banking
52 week H/L	Rs.264/96
BSE Code	532477
NSE Code	UnionBank
Face Value	Rs. 10
Market Cap	Rs.12,019 Cr

Price Performance			
%	1m	3m	1yr
Absolute	0.6%	6.6%	66.2%
Relative to Sensex	6.1%	-	11.8%

Shareholding Pattern (%)	
Promoters	55.43
FII / Institutions	30.44
Public & Others	14.13

INVESTMENT RATIONALE

Union bank of India reported net profit of Rs.442.2 Crore during Q1FY10 far ahead of expectations. During Q1FY10 bank reported a net profit of Rs.442.2 Crore as compared to Rs.228.3 Crore in Q1FY09 a increase of 93.7% (y-o-y). Key triggers for banks out performance were decline of cost of funds, and higher other income. Net Interest Margin had significantly decline from 2.90% in Q1FY09 to 2.29% in Q1FY10.

Key Developments

- Both deposit and credit growth have been running ahead of the system
- Market share in deposits increased 24 bps to 3.37% and market share in advances increased 16 bps to 3.27%
- Total Business grew by 31% y-o-y
- Management projects NIM to jump up to ~3% levels by end of FY10
- Yield on Funds declined 11 bps y-o-y to 8.05% on back of PLR cuts
- Cost of deposits increased 42 bps y-o-y to 6.02% on account of the high cost deposits raised in Q3FY09
- Management estimates that the average rate on term deposits will decline 113 bps to 7.2% (from 8.33% in July 09) as high cost deposits mature
- Management indicated that it will decelerated deposit growth by not renewing Rs 5000 crore of high cost deposits maturing in FY10 and stop accepting corporate bulk deposits worth more than Rs 5 crores
- CASA ratio declined to 30.4% as the rate of term deposit growth outpaced rate of low cost deposit growth
- Advances growth has been high in agriculture (38.2%), retail (29.1%) and MSME (23%)
- Retail (11%), trade (8.6%) and Infrastructure (9.7%) are sectors with highest exposure among Union Bank's advances
- Exposure to stressed sectors is relatively contained (Gems and Jewellery: 2% and Textile: 3%)

Healthy Business Growth

The total business has grown by 31% to Rs. 2,39,915 crore in Q1FY10 as compared to Rs.1,83,058 Crore during Q1FY09. Advances have grown by 27% to Rs.96,026 crore in Q1FY10 as compared to Rs.75,810 Crore during Q1FY09 and deposits grew by 34% to Rs.1,43,889 Crore in Q1FY10 as compared to Rs.1,07,248 Crore during Q1FY09. Advances grew on the back of strong retail loan book which now constitute 29% of the banks advances while deposits grew on the back of huge demand for Term Deposits which stood at Rs.43,742 Crore in Q1FY10 as compared to Rs. 37,280 Crore in Q1FY09.

Valuations

At current price of Rs 237 the stock is trading at 1.39x FY10E BV of Rs. 170 and 6.75x FY10E EPS of Rs. 40.

We believe that Union bank relatively inexpensive valuations (~1.39x FY10 BV/s) given RoE above 20%; continued strong business growth prospects (management project credit growth of 25% and deposit growth of 23% in FY10); C/D ratio, which currently stands at 64%, will improve as deposit growth decelerates and credit growth accelerates.

We recommend a "BUY" on the stock with a 3 month target price of Rs. 265 giving an upside potential of 12% from current level.



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