

UCO Bank Ltd.

Sector: Banking

Buy

CMP : Rs. 81
Target Price: Rs. 94

Asian Markets Securities Pvt. Ltd.

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Nifty:5,136 ; Sensex: 17,118

Key Stock Data

BSE Code	532505
NSE Code	UCOBANK
Bloomberg	UCO IN
Shares O/s Mn	549.36
Market cap (Rs. Mn)	44,471
52-week High/Low	82/36
1-m daily average vol.	6,978,267

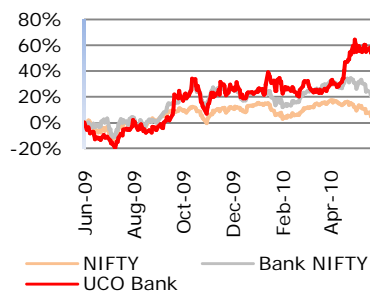
Price Performance

(%)	1m	2m	12m
UCO	15.5	35.1	81.1
CNXBANK	(1.7)	4.9	28.7
NIFTY	(0.3)	1.1	12.3

Shareholding Pattern

(%)	Sep09	Dec09	Mar10
Promoters	63.6	63.6	63.6
FII's	2.8	2.9	3.1
Banks & FI	12.9	13.8	14.6
Public	20.7	19.7	18.8

Price Performance Rel. to Benchmark



Summary

Getting it act together

UCO Bank Limited (UCO Bank) is ready to capture significant business opportunities in an improved economic scenario. A strong distribution network, large customer base in eastern and northern India, and a balanced loan portfolio will help the Bank deliver healthy operating performance. Furthermore, capital infusion by Government of India (GoI) and an upcoming FPO will fuel the Bank's growth strategies. An imminent change in top management, we believe, would have a positive impact on the stock.

The stock trades at FY11E and FY12E ABV of 1.11x and 0.86x and P/E of 3.790x and 2.91x respectively. We value the stock at 1x FY12E adjusted BV to arrive at our target price of Rs94, which implies 16% potential upside from the current level. We initiate coverage with a 'Buy' recommendation.

Investment Highlights

■ **Capital raising initiatives would support growth ambitions**

UCO Bank is aggressively pursuing capital raising initiatives to boost its Tier 1 Capital following which we expect Tier I capital to exceed the minimum statutory level of 8%. This will give the Bank enough headroom to pursue growth opportunities without raising further capital in the near future.

■ **Asset-liability gap indicates margin improvement**

A steady improvement in Net Interest Margin (NIM) is visible from an analysis of the Bank's asset-liability gap. The maturity pattern of deposits as of 31st March 2010 indicates that 65.6% deposits will come up for re-pricing in FY11, giving the Bank a strong advantage in the current scenario. Further, yield on assets is expected to improve, given focus on high-yielding assets following capital infusion.

■ **NPA's to peak out in FY11**

UCO Bank's asset quality is comfortable, with gross and net NPA ratio of 2% and 1.2% respectively. However, we expect NPA's to peak out in FY11 when more restructured assets would turn NPA's.

■ **Valuations would improve on growing recognition of fundamentals**

We estimate earnings to grow at 30% CAGR over FY10-12, led by improvement in net interest income (NII) and moderate fee income growth. We believe UCO Bank's valuations will improve since its return ratios are expected to be the best among peers despite concerns on restructured assets. We believe the market has not fully recognized the Bank's fundamental strengths and it deserves a better rating. We recommend "BUY" with one year target price of Rs94.

Key Financials

	NII	Other Income	Ope Profit	Net Profit	Deposit	Credit	Total Assets	NIM	Avg. ROA (%)	Avg. ROE (%)	EPS (Rs)	Adj BV (Rs)	P/E (x)	Adj. P/B (x)
FY09	16.4	10.2	12.0	5.6	1,002	688	1,117	1.61	0.55	17.12	10.2	36.1	2.80	0.79
FY10	23.2	9.7	17.1	10.1	1,224	834	1,373	1.82	0.81	24.93	18.4	48.2	3.07	1.17
FY11E	30.1	10.3	23.0	13.0	1,451	1,000	1,628	2.00	0.95	23.80	21.4	73.0	3.79	1.11
FY12E	37.1	12.0	30.2	16.9	1,712	1,206	1,917	2.10	0.96	24.87	27.8	94.0	2.91	0.86

(Rs bn)

Investment Rationale

Capital raising initiatives are on track

■ **Capital raising initiatives would support growth ambitions**

UCO Bank's capital adequacy has been under pressure for the past five years, impacting its growth plans. The Bank's Tier I capital ratio lingered in the 5.5–6% range during FY05-08, much below the statutory requirement of 8%. Further, the Bank relied heavily on Tier II capital which, besides being costlier, was a limited choice, considering that banks can only raise 50% of Tier I capital as Tier II capital. During this period, the Bank's total capital adequacy ratio too was well below the statutory requirement of 12%. Thus, the overall capital crunch had a telling impact on UCO Bank's performance.

Nevertheless, this is a story of the past. The Bank's current management team, stewarded by Chairman and Managing Director Mr. S K Goel, has taken several initiatives that address the issue of capital. These initiatives would have a positive impact on the Bank's operating performance.

Table 1: Capital Raising Initiatives

Sl.	Initiatives	Detail
1	Capital Restructuring	GOI approved capital restructuring plan in Dec-2008 under which the Bank converted ~Rs2.5bn equity capital held by GOI into Perpetual Non-Cumulative Preference Shares (PNCPS) of equal amount. Following the restructuring, GoI holding was 63.6% compared versus 75% in pre-restructuring period
2	Capital Infusion by GOI	GOI approved infusion of Rs12bn of capital by subscribing to PNCPS of the Bank. Of this, GoI has already infused Rs9bn in FY09-10 and the remaining Rs3bn will come in the first half of the current year.
3	Applied for additional capital from GOI	The Bank has applied for additional capital of Rs16bn to GOI under the recently launched PSB capital infusion plan (through World Bank funding). The management expects GoI to infuse ~Rs15bn of additional capital GOI under this plan.
4	FPO	The bank is coming up with a follow on public issue of 60 mn shares in 2QFY11. Following the FPO, GoI stake will reduce to 58.6% from the current 63.6%. The issue will lead to equity dilution of 11% and the Bank is expecting to raise ~Rs5bn from the FPO.

Source : Company, NSE, AMSEC Research

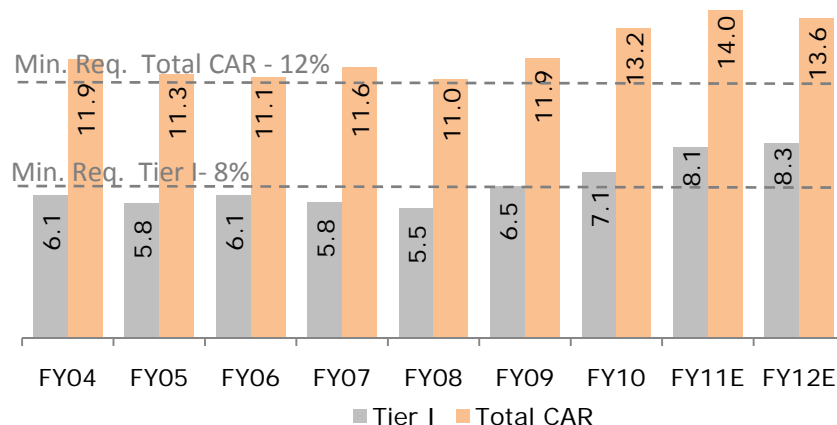
UCO Banks' FPO is expected to hit the market in 2QFY11

Management targets raising Rs5bn from the upcoming FPO

Following implementation of these initiatives, we expect UCO Banks' Tier I capital to exceed the minimum statutory requirement of 8%. This will give it sufficient headroom to pursue growth opportunities without raising further capital in the near future. Further, the Bank has been making lower dividend payout to maintain its Tier I capital: In FY09 and FY10, it distributed merely 10.8% and 8.1% of profit as dividend as against the normal practice of public sector banks of distributing ~15-30% of their profit as dividend. UCO Bank's Management intends to continue with this strategy over the next two years to maintain the improvement in Tier I capital ratio. Further, the infusion of equity and preference capital will have a positive impact on the Bank's NIMs as it will earn higher yields by deploying these funds.

Fig. 1: Capital adequacy to move ahead of the expected level

Following completion of ongoing capital raising, Tier I capital ratio will cross the 8% mark



Source: Company, AMSEC

■ **Asset-liability gap indicates margin improvement**

An analysis of the Bank's asset-liability gap suggests that NIMs will steadily improve over the next few quarters.

Table 2: Maturity pattern of assets and liabilities

Maturity pattern	Deposits				Advance				Investment			
	FY2009-10				FY2009-10				FY2009-10			
	Outstanding as on March 10		Average Maturity		Outstanding as on March 10		Average Maturity		Outstanding as on March 10		Average Maturity	
Amount	% of Total	Days	Weighted Avg.	Amount	% of Total	Days	Weighted Avg.	Amount	% of Total	Days	Weighted Avg.	
1 Day	4,089	0.3%	1	0.0	11,540	1.4%	1	0.0	3,320	0.8%	1	0.0
2-7 Days	24,652	2.0%	5	0.1	13,750.0	1.7%	5	0.1	15,610.0	3.6%	5	0.2
8 - 14D	31,514	2.6%	11	0.3	15,080	1.8%	11	0.2	19,790	4.5%	11	0.5
15 - 28D	42,392	3.5%	22	0.7	18,210	2.2%	22	0.5	18,370	4.2%	22	0.9
29 D - 3M	178,268	14.6%	60	8.7	47,180	5.7%	60	3.4	44,430	10.2%	60	6.1
>3 M - 6M	169,514	13.8%	136	18.8	41,730	5.1%	136	6.9	64,710	14.9%	136	20.1
>6 M - 1Y	353,185	28.9%	273	78.8	61,270	7.4%	273	20.3	105,080	24.1%	273	65.9
>1 Y - 3Y	124,815	10.2%	730	74.4	112,410	13.6%	730	99.5	38,580	8.9%	730	64.7
>3 Y - 5Y	14,888	1.2%	1,460	17.8	103,940	12.6%	1,460	183.9	55,110	12.7%	1,460	184.9
>5 Yrs	280,839	22.9%	1,825	418.7	399,930	48.5%	1,825	884.7	70,210	16.1%	1,825	294.4
Total	1,224,156	100%		618	825,040	100%		1,199	435,210	100%		638
Weighted Average Maturity in Years				1.69				3.29				1.75

Source: Company, AMSEC

65.6% of total deposit will come up for re-pricing in FY11

The maturity pattern of the Bank's deposits as on 31st March 10 indicates that ~65.6% of its deposits will come up for re-pricing in FY11. This gives the Bank a major advantage in the current scenario. Bank deposit rates had plummeted for more than a year and are at a historical low. We see deposit rates stabilizing at the current level with a marginal upward bias.

Cost of deposits of the Bank was 6.44% in FY10, indicating 81 basis points improvement YoY. We expect this trend to continue through the remaining part of FY10. Moreover, UCO Bank's aggressive CASA mobilization strategy will help reduce cost of funds. However, we expect some negative impact on cost of deposits due to implementation of the new method of calculating interest on savings deposits.

Table 3: Interest rate structure of Term Deposits and Advances

Maturity pattern	Outstanding as on March 10	
	Amount (Rs.mn)	% of Total
Advances		
>8.25% & up to 9.25%	101,600	12.2
>9.25% & up to 10.25%	108,150	13.0
>10.25% & up to 11.25%	145,740	17.5
>11.25% & up to 12.25%	140,890	16.9
Above 12.25%	193,460	23.2
Other	143,875	17.3
Term Deposit		
<=5%	46,581	5.1
>5% and <=7%	477,998	51.8
>7% and <=9%	174,597	18.9
>9% and <=11%	74,235	8.0
Other	148,975	16.2

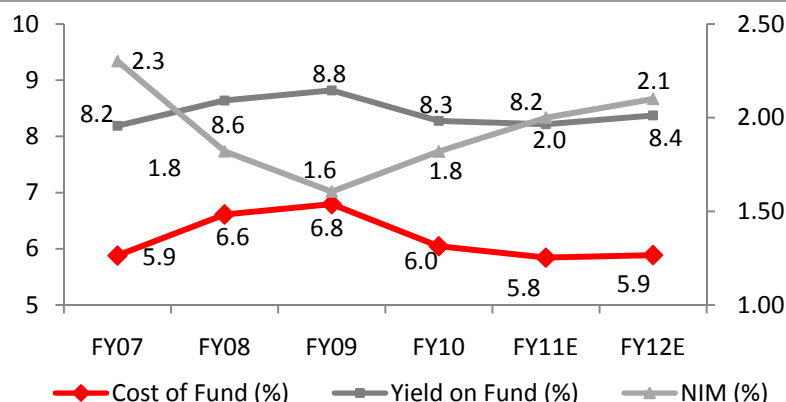
Source: Company

Yield on funds is expected to improve from the current level

A strong management team reinforces confidence in the Bank's ability to deliver better performance

Management expect business to grow at healthy pace

Fig. 2: Margin to improve further from the current level



Source: Company, AMSEC

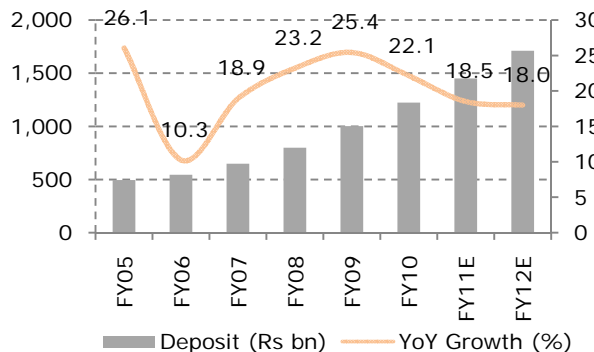
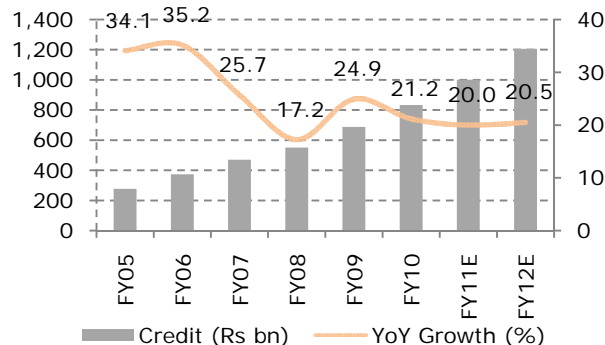
Furthermore, yield on assets is expected to improve marginally as the Bank intends to pursue high-yielding assets aggressively following capital infusion. Implementation of the base rate is also expected to have a positive impact on yield on advances in the coming quarters. Maturity and interest rate analysis of the Bank's advances portfolio also portends positive trends. The Bank's yield on funds will also be positively impacted by the deployment of low cost capital fund raised during the year into high yielding assets.

■ **Strong management bandwidth**

UCO bank has a strong and experienced team of professionals, which is steering the bank well out of a situation of capital constraints, preparing it to pursue growth aggressively in an economic environment that has recovered dramatically. Further, imminent change in the top management team is expected to have a positive impact on the Bank. Chairman Mr. S K Goel retires in September 2010 and is expected to be replaced by Mr. Arun Kaul (ED, Central Bank of India). We believe this would be a positive development since UCO Bank would benefit from Mr. Kaul's strong management capabilities and track record. A strong management team reinforces confidence in the Bank's ability to deliver high growth while keeping a tab on asset quality.

■ **Business is expected to grow at a healthy pace**

UCO Bank's credit and deposits grew 21.2% YoY and 22.2% YoY in FY10 versus the average of 16.7% YoY and 17% YoY respectively for the overall banking industry. Management intends to maintain this momentum and is taking strategic initiatives to ensure rapid growth. Further, the Bank's lucrative branch profile gives it significant business opportunities by allowing it to leverage its wide network in eastern and northern India to raise low-cost deposits and lend to the high-yielding retail credit businesses.

Fig. 3: Trend in loan growth

Fig. 4: Trend in deposit mobilization


Source: Company, AMSEC

Gross bank credit of the banking industry is expected to grow ~20% in FY11, led by healthy demand from the domestic corporate, SME and retail segments. We expect UCO Bank's loan book and deposits to grow at 20% and 18.5% in FY11 in line with industry growth.

Table 4: Indian banks' ranking (Domestic Business)

	As on March 2010 (Rs bn)			Market Share (%)			No of Branch	Business Per Branch (Rs mn)	Profit Per Branch (Rs mn)	M CAP (Rs bn)
	Deposit	Credit	Total Business	Deposit	Credit	Total Business				
1 SBI (Standalone)	4,811	7,425	14,456	10.4	22.3	18.2	12,496	864	7.3	1,486
2 PNB	2,493	1,866	4,359	5.4	5.6	5.5	5,077	1,165	7.7	320
3 ICICI Bank	2,020	1,812	4,040	4.4	5.4	5.1	3,046	754	9.9	966
4 Canara Bank	2,347	1,693	3,983	5.1	5.1	5.0	3,236	813	5.4	172
5 IDBI Bank	1,677	1,382	3,832	3.6	4.1	4.8	1,740	454	23.1	83
6 Bank of India	1,966	1,352	3,125	4.2	4.1	3.9	3,100	992	9.9	176
7 Bank of Baroda	1,853	1,316	3,059	4.0	4.0	3.8	720	235	14.3	270
8 HDFC Bank	1,674	1,258	2,947	3.6	3.8	3.7	1,725	585	17.1	865
9 Union Bank of India	1,700	1,193	2,913	3.7	3.6	3.7	2,910	999	7.1	159
10 Central Bank	1,621	1,054	2,692	3.5	3.2	3.4	3,577	1,329	3.0	60
11 Axis Bank	1,413	1,043	2,456	3.1	3.1	3.1	1,035	421	24.3	507
12 Syndicate Bank	1,170	904	2,069	2.5	2.7	2.6	2,307	1,115	3.5	50
13 Oriental Bank	1,203	835	2,058	2.6	2.5	2.6	2,148	1,044	4.7	83
14 UCO Bank	1,224	834	2,044	2.6	2.5	2.6	1,508	738	7.5	44
15 IOB	1,108	808	1,777	2.4	2.4	2.2	2,286	1,287	5.3	50
16 Allahabad Bank	1,061	716	1,759	2.3	2.1	2.2	1,927	1,095	3.7	73
17 Corporation Bank	927	632	1,559	2.0	1.9	2.0	1,155	741	10.1	77
18 Indian Bank	882	621	1,509	1.9	1.9	1.9	1,756	1,164	8.9	99
19 Andhra Bank	777	561	1,338	1.7	1.7	1.7	1,557	1,163	6.7	67
20 United Bank of India	682	428	1,109	1.5	1.3	1.4	1,534	1,383	2.1	25
21 Vijaya Bank	619	415	1,039	1.3	1.2	1.3	1,158	1,115	4.4	27
22 Other	13,059	5,172	15,484	28.2	15.5	19.5				
Total Industry	46,287	33,322	79,609	100	100	100				

Source: Company, AMSEC

CASA Ratio is expected to improve gradually over next two years

■ **CASA base set to improve**

UCO Bank's CASA base declined from the high of 30% in Mar-04 to 24.1% Mar-09, primarily due to higher dependence on bulk deposits and flat growth in current account deposits. Renewed focus on CASA deposits already seems to be fetching results: CASA deposits grew marginally to 24.65% in Mar-10. We expect a gradual improvement in the Bank's CASA ratio to ~28% by Mar 12. Planned expansion in branch network through addition of 100 branches every year over the next three years would further support the Bank's efforts in mobilizing CASA deposits.

The large corporate segment contributed 76% of incremental lending in FY10

Well diversified loan portfolio

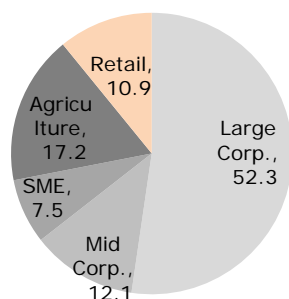
UCO Bank has a well-diversified loan portfolio that spreads across the corporate, retail and agriculture segments. The portfolio is expected to further tilt toward mid-corporate, SME and retail loans. UCO Bank's loan book grew at 22.2% CAGR in FY06-10 and is expected to grow at 20% CAGR during FY10-12. At end-FY10, the loan book stood at Rs833.7bn, marking a credit growth of 21.2% YoY.

Table 5: UCO Bank's loan portfolio

	As on (Rs mn)			YoY Growth (%)		Incremental Contribution (%)	
	Mar-08	Mar-09	Mar-10	Mar-09	Mar-10	Mar-09	Mar-10
Large Corp.	236,066	332,750	436,216	41.0	31.1	68.9	75.5
Mid Corp.	80,793	92,826	101,215	14.9	9.0	8.6	6.1
SME	88,472	66,875	62,440	-24.4	-6.6	-15.4	-3.2
Agriculture	79,478	112,392	143,090	41.4	27.3	23.4	22.4
Retail	71,461	91,848	90,755	28.5	-1.2	14.5	-0.8
Total	556,269	696,691	833,715	25.2	19.7	100.0	100.0

Source: Company, AMSEC

Fig 5: Loan book composition (%)



Source: Company

With a pick-up in the economy, UCO Bank would have adequate opportunities to maintain the healthy pace of growth. The share of mid-corporate and SME loans in the overall pie is expected to marginally increase to ~13% and ~8% respectively in FY11. By contrast, the share of agri credit is expected to decline to ~17%. Further, considering the macro, industry-wide trends, UCO Bank's strategy of focusing on increasing retail assets appears well-timed. Within retail advances, the Bank intends to focus on the less risky trader finance and home loan segments.

Table 6: Industry-wise growth of UCO Bank's loan book

Sector	As on (Rs mn)				YoY Growth (%)			Incremental Contribution (%)		
	Mar-07	Mar-08	Mar-09	Mar-10	Mar-08	Mar-09	Mar-10	Mar-08	Mar-09	Mar-10
Infra	27,760	53,393	66,378	117,151	92.3	24.3	76.5	32.0	14.2	56.4
NBFCs	-	12,116	50,456	58,651	-	316.4	16.2	15.1	41.9	9.1
Steel	20,700	28,973	39,881	54,525	40.0	37.6	36.7	10.3	11.9	16.3
Other Ind	15,960	26,767	36,123	35,700	67.7	35.0	-1.2	13.5	10.2	-0.5
Chemicals	5,370	8,859	13,612	27,011	65.0	53.6	98.4	4.4	5.2	14.9
Electricity	7,360	18,410	16,825	26,454	150.1	-8.6	57.2	13.8	-1.7	10.7
Engineering	14,990	16,278	19,913	20,950	8.6	22.3	5.2	1.6	4.0	1.2
Construction	12,300	14,320	15,623	16,637	16.4	9.1	6.5	2.5	1.4	1.1
Textiles	8,000	13,029	12,745	13,232	62.9	-2.2	3.8	6.3	-0.3	0.5
Petroleum	9,150	9,600	21,596	12,828	4.9	125.0	-40.6	0.6	13.1	-9.7
Total	121,590	201,745	293,151	383,138	65.9	45.3	30.7	100.0	100.0	100.0

Source: Company, AMSEC

The Bank needs to provide additional Rs2bn in FY11 to meet the 70% provision norms

Asset quality is comfortable

UCO Bank's asset quality is comfortable with gross and net NPA ratio of 2% and 1.2% respectively as of March 2010. Aggressive write-offs over the past few years have helped the Bank to steadily reduce gross NPAs from the 5.5% level in March 2005. Provision coverage stands at 42% excluding technical write-offs and 50% including it. This is below RBI's prescribed guideline of 70%. UCO Bank has to provide an additional ~Rs2bn for meeting RBI's prescribed guidelines on provision coverage. Further, the Bank has also applied to RBI to extend the deadline for achieving the prescribed provision coverage. Hence, we anticipate further stress on UCO Bank's profitability, which we have modeled in our financial projections.

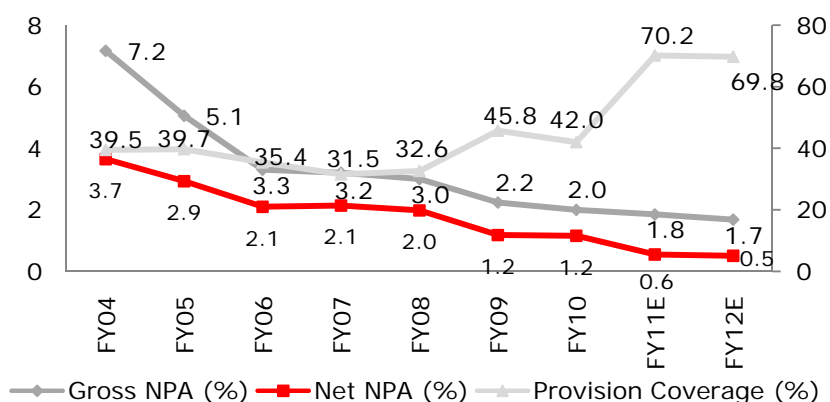
... Although restructured assets are a concern,

RBI's policy on restructuring of standard assets has prevented a surge in NPAs of Indian banks. Under RBI's special guidelines, UCO Bank restructured loans of ~Rs42.5bn, which constitute ~5.1% of its advances. Of the total restructured assets, approximately Rs1.5bn slipped into the NPA category over the past three quarters. Management believes that ~5-7% of the restructured assets may eventually slip into the NPA category in future.

We expect ~10% of restructured assets to turn NPAs

Nevertheless, we have conservatively modeled ~10% of the restructured loans as NPA in our estimates. We place gross and net NPAs at 1.85% and 0.55% by end-FY11 and expect the Bank to achieve provisioning cover (excluding technical write-offs) of 65-70% of gross NPAs in the coming years.

Fig. 6: NAP to peak out in FY11



Source: : Company, AMSEC

Growth in fee income to pick up

We expect improvement in the Bank's core fee businesses such as commission, fee, brokerage, and dividend as a result of the management's continued focus to improve fee-based income. The Bank is targeting 15% growth in core fee-based income in FY11. However, subdued treasury gains may offset the growth in other income, leading to a marginal growth in overall other income.

Fee income expected to be subdued in FY11

■ **Bottom line is expected to grow ~29% over FY09-12**

We expect UCO Bank's net profit to grow at a healthy 29% CAGR over FY11-12, driven by robust growth, margin expansion, higher fee income, and improvement in operational performance. The Bank's effective tax rate will also increase from FY11 onward as it completed a write-off of accumulated losses in FY11. We believe incremental profitability will exceed the rate at which increase in provisioning expenses would be absorbed.

Fig. 7: Profit to grow at a healthy pace

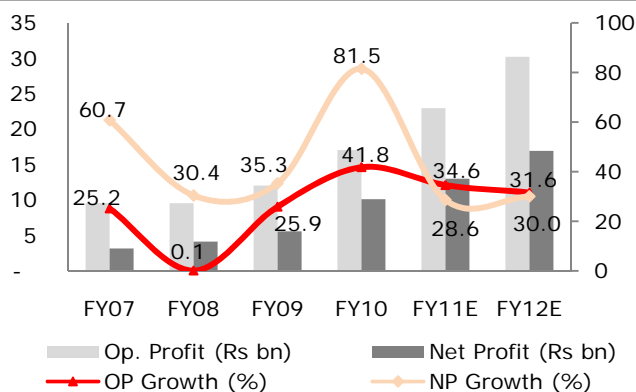
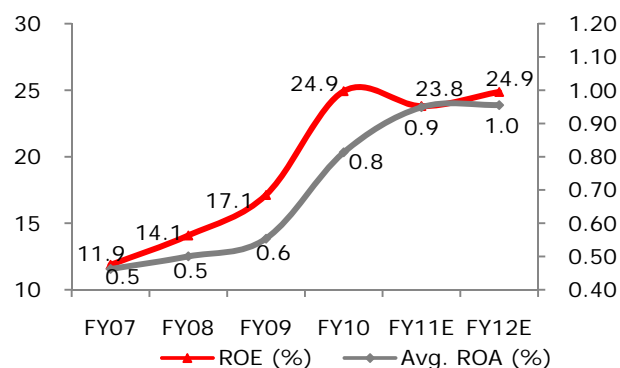


Fig. 8: To generate above-average returns



Source: Company, AMSEC

The Bank's ROE would be under slight pressure in FY11 as a result of equity dilution by GoI, but will rebound strongly in FY12 to 25.8%. Its ROA will also gradually improve to the 0.95% mark by FY12.

Peer Comparison

	UCO Bank	Allahabad Bank	Andhra Bank	Central Bank of India	Corporation Bank	Indian Overseas Bank	IDBI Bank	Indian Bank	Oriental Bank	Syndicate Bank	Vijaya Bank	United Bank of India
Deposit (Rs. bn)	1,224	1,061	777	1,621	927	1,001	1,677	882	1,203	1,170	619	682
YoY % Growth (FY10)	22.1	24.8	30.8	23.5	25.3	0.0	49.2	21.6	22.3	1.0	13.6	25.0
5 Year CAGR (FY06-10)	22.4	21.6	23.0	25.0	29.6	18.6	59.4	21.3	24.4	21.5	22.3	23.6
Credit (Rs. bn)	834	724	565	1,071	632	758	1,382	627	842	899	419	428
YoY % Growth (FY10)	19.7	21.9	28.0	25.3	30.3	1.2	33.6	21.9	22.9	10.3	18.2	19.7
5 Year CAGR (FY06-10)	22.2	25.6	26.5	30.0	27.4	21.5	27.2	29.2	25.8	25.3	26.0	28.8
NII (Rs mn)	23,241	26,505	21,947	25,453	22,103	31,679	22,674	33,039	29,074	27,398	14,491	13,912
YoY % Growth (FY10)	41.3	22.8	34.9	14.2	30.7	10.4	82.9	26.7	45.6	7.5	28.8	19.8
5 Year CAGR (FY06-10)	10.4	13.9	17.1	1.7	15.9	11.3	56.3	21.6	16.0	9.9	10.5	37.6
Other Income (Rs mn) (FY10)	9,659	15,159	9,646	17,352	11,864	11,433	22,910	11,737	12,001	11,675	6,795	5,587
YoY % Growth (FY10)	(5.3)	32.8	26.0	62.2	7.2	(28.4)	55.2	13.4	12.0	27.6	(2.8)	13.8
5 Year CAGR (FY06-10)	26.8	33.1	25.3	34.5	25.8	20.6	15.7	26.2	21.4	20.1	24.4	25.1
Oper. Profit YoY % Growth (FY10)	41.9	34.1	40.5	43.3	22.0	(30.2)	97.9	33.6	45.0	12.1	17.6	29.3
Prov & Conti (Rs mn) (FY10)	6,565	7,769	3,740	5,090	4,744	7,835	16,822	3,957	8,160	6,997	3,558	4,653
YoY % Growth (FY10)	4.0	(5.9)	(4.1)	(0.5)	39.2	37.6	328.8	46.4	55.5	8.2	(0.4)	7.4
Net Profit (Rs mn) (FY10)	10,122	12,063	10,459	10,582	11,703	7,070	10,311	15,550	11,347	8,133	5,073	3,224
YoY % Growth (FY10)	81.5	57.0	60.1	85.3	31.1	(46.7)	20.1	24.9	27.4	(10.9)	93.3	74.5
5 Year CAGR (FY06-10)	50.6	14.3	21.1	42.4	27.4	(2.5)	16.4	32.5	19.5	11.0	41.4	57.6

Key Ratio - March 2010

	UCO Bank	Allahabad Bank	Andhra Bank	Central Bank of India	Corporation Bank	Indian Overseas Bank	IDBI Bank	Indian Bank	Oriental Bank	Syndicate Bank	Vijaya Bank	United Bank of India
CASA (%)	23.6	35.0	29.4	29.9	28.6	32.6	14.6	32.9	25.0	32.9	25.4	38.2
CD Ratio (%)	68.1	68.3	72.7	66.1	68.2	75.7	82.4	71.0	70.0	76.8	67.7	62.7
NIM (%)	2.19	2.94	3.21	1.86	2.41	2.74	1.28	3.71	2.56	2.35	2.54	2.24
Non Int Inc as % of Op Income	29.4	36.4	30.5	40.5	34.9	26.5	50.3	26.2	29.2	29.9	31.9	28.7
Cost to Income Ratio	48.2	38.8	42.7	51.9	37.1	59.1	40.2	38.6	41.0	52.0	50.3	55.1
Pro Burden as % of Op Profit	38.5	30.5	20.7	24.7	22.2	44.5	61.7	14.4	33.7	37.3	33.7	53.1
CRAR (%)	13.21	13.62	13.93	13.12	15.37	14.78	11.31	12.71	12.54	12.70	12.50	12.80
Tier I (%)	7.05	8.12	8.18	6.97	9.25	8.67	6.24	11.13	9.28	-	7.69	8.16
ROE (Annulazed) (%)	23.80	22.21	25.96	24.27	20.26	10.90	13.14	21.15	15.40	14.80	20.50	12.26
ROA (%)	0.87	1.16	1.39	0.66	1.19	0.53	0.53	1.67	0.91	0.62	0.76	0.45

Assets Quality - March 2010

	UCO Bank	Allahabad Bank	Andhra Bank	Central Bank of India	Corporation Bank	Indian Overseas Bank	IDBI Bank	Indian Bank	Oriental Bank	Syndicate Bank	Vijaya Bank	United Bank of India
Gross NPA (Rs mn)	16,664	12,218	4,879	24,579	6,509	36,111	21,294	5,101	14,688	20,068	9,945	13,723
Net NPA (Rs mn)	9,663	4,702	957	7,274	1,973	19,950	14,063	1,449	7,238	9,777	5,816	7,786
Gross NPA Ratio (%)	1.99	1.69	0.86	2.29	1.02	4.47	1.53	0.81	1.74	2.19	2.37	3.21
Net NPA Ratio (%)	1.17	0.66	0.17	0.69	0.31	2.52	1.02	0.23	0.87	1.07	1.40	1.84
NPA Coverage (%)	42.0	61.5	80.4	70.4	69.7	44.8	34.0	71.6	50.7	51.3	41.5	43.3

Efficiencies Level

	UCO Bank	Allahabad Bank	Andhra Bank	Central Bank of India	Corporation Bank	Indian Overseas Bank	IDBI Bank	Indian Bank	Oriental Bank	Syndicate Bank	Vijaya Bank	United Bank of India
Number of Branches (Mar'10)	2,148	2,286	1,557	3,577	1,155	1,927	720	1,756	1,508	2,307	1,158	1,534
Business per Branch (Mar'10) (Rs mn)	958	781	862	753	1,350	913	4,248	859	1,356	897	897	723
Profit per Branch (FY10)	6.3	7.0	9.0	3.9	13.5	4.9	19.1	11.8	10.0	4.7	5.8	2.8

Per Share Data & Valuation

	UCO Bank	Allahabad Bank	Andhra Bank	Central Bank of India	Corporation Bank	Indian Overseas Bank	IDBI Bank	Indian Bank	Oriental Bank	Syndicate Bank	Vijaya Bank	United Bank of India
Face Value (Rs.)	10	10	10	10	10	10	10	10	10	10	10	10
EPS (TTM) (Rs.)	18.4	27.5	21.6	24.7	82.4	13.0	14.2	35.1	45.3	15.6	11.7	10.2
Book Value (Rs.)	65.7	136.5	90.9	108.0	408.3	116.5	113.1	154.7	292.2	100.1	53.5	91.7
Adjusted Book Value (Rs.)	48.2	125.9	89.0	90.0	394.6	79.9	93.7	151.3	263.3	81.3	40.1	67.1
Price to Earning (x)	4.39	5.96	6.38	6.07	6.51	7.07	8.08	6.58	7.35	6.16	5.23	7.81
Price to Adj. Book (x)	1.68	1.30	1.55	1.66	1.36	1.15	1.23	1.53	1.26	1.18	1.53	1.19
Mkt Cap (Rs. bn)	44.5	73.2	66.8	60.4	76.9	50.0	83.3	99.3	83.4	50.1	26.5	25.2
52 week High (Rs.)	81.9	177.1	140.9	178.9	590.1	141.0	150.0	236.6	357.0	113.0	62.1	90.8
52 week Low (Rs.)	35.6	68.1	74.0	71.2	271.2	75.1	84.5	112.6	152.0	64.0	37.0	66.1
% Change from 52 Week High	(1.2)	(7.4)	(2.3)	(16.4)	(9.1)	(34.9)	(23.4)	(2.4)	(6.7)	(15.0)	(1.5)	(12.4)
% Change from 52 Week Low	127.7	140.7	86.0	110.2	97.8	22.2	36.0	105.2	119.1	50.0	65.3	20.3

Financial Analysis

- **Healthy performance led by NII growth**

UCO Bank demonstrated robust financial and operating performance during 4QFY10. Net profit grew robustly at 270.3% YoY and 54.5% QoQ to Rs3.8bn, led by solid growth in NII and healthy growth in core fee income. For full-year FY10, net profit grew 81.5% YoY to Rs10.2bn on the back of robust growth in core operating income and moderate increase in operating and provision expenses.

- **Strong growth in net interest income**

Net interest income grew 98.5% YoY to Rs7.4bn in 4QFY10 and 41.3% YoY to Rs23.2bn in FY10, led by strong growth in interest income. The growth in interest income of 12.6% YoY in 4QFY10 and 17.3% YoY in FY10 was due to disbursement to some high-yielding infrastructure projects. However, yield on advances declined marginally to 10.13% in FY10 compared with 10.67% in FY09. Further, NII benefited from the positive impact of decline in cost of deposit to 6.44% in FY10 from 7.25% in FY09 as result of re-pricing of incentive rate deposits.

- **Marginal growth in core fee income**

During FY10, the Bank reported marginal growth of 7.7% YoY in core fee income, which amounted to Rs6.8bn, compared with Rs6.3bn in the year-ago period. The muted growth in core fee income was primarily due to flat growth in exchange and commission income, which was partially offset by strong growth in profit on exchange transaction.

On an aggregate basis, other income declined 28.7% YoY in 4QFY10 to Rs2.5bn and 5.3% in FY10 to Rs9.56bn. This was due to a sharp decline in treasury profit, which declined 41.8% to Rs2.4bn. Non-interest income contributed 29.4% to total operating income in FY10, compared with 38.3% in FY09.

- **Operating profit up 41.9% YoY in FY10**

Strong growth in core operating income, coupled with moderate growth in operating expenses, led to robust growth in operating profit in 4QFY10 and full-year FY10.

Table 7: Financial Summary

(Rs.mn)	Q4FY10	Q4FY09	Q3FY10	YoY %	QoQ %	FY10	FY09	YoY %
Interest Income	24,359	21,643	23,747	12.6	2.6	95,263	81,214	17.3
Interest Expended	16,920	17,896	17,471	(5.5)	(3.2)	72,022	64,767	11.2
Net Interest Income	7,439	3,747	6,276	98.5	18.5	23,241	16,447	41.3
Other Income	2,541	3,563	2,340	(28.7)	8.6	9,659	10,199	(5.3)
Operating Income	9,980	7,311	8,617	36.5	15.8	32,901	26,646	23.5
Operating Expenses	4,324	4,036	3,995	7.1	8.3	15,844	14,630	8.3
Operating Profit	5,656	3,274	4,622	72.7	22.4	17,056	12,016	41.9
Provisions and Contingencies	1,769	2,172	2,114	(18.6)	(16.3)	6,565	6,313	4.0
Pre tax Profit	3,887	1,102	2,508	252.7	55.0	10,492	5,703	84.0
Provisions for Tax	89	69	50	29.0	78.6	370	99	272.0
Net Profit	3,798	1,026	2,458	270.3	54.5	10,122	5,577	81.5

Source: Company, BSE, AMSEC

■ **Strong traction in business**

UCO bank reported strong growth in business in 4QFY10: 19.7% YoY growth and 12.2% QoQ growth in credit to Rs833.7bn and 21.2% YoY growth and 17.6% QoQ growth in deposits to Rs1,224bn.

Table 8: Key Quarterly Statistics – UCO Bank

Quarter Ended	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10
Deposit (Rs. bn)	1,002	1,004	1,010	1,041	1,224
Advance (Rs. bn)	697	684	707	743	834
CD Ratio (%)	69.5	68.1	70.0	71.4	68.1
Incremental CD Ratio (%)	65.8	(622.7)	389.1	118.1	49.4
Assets Quality					
Gross NPA (Rs. mn)	15,395	15,555	15,294	14,932	16,664
Net NPA (Rs. mn)	8,127	7,761	7,096	6,574	9,663
% of Gross NPAs	2.21	2.27	2.16	2.01	1.99
% of Net NPAs	1.18	1.15	1.01	0.89	1.17
Profitability					
Other Income as % of OI	48.7	37.1	30.0	27.2	25.5
Cost to Income Ratio (%)	55.2	54.3	51.1	46.4	43.3
Pro Burden as % of Op Profit	66.3	40.9	38.5	45.7	31.3

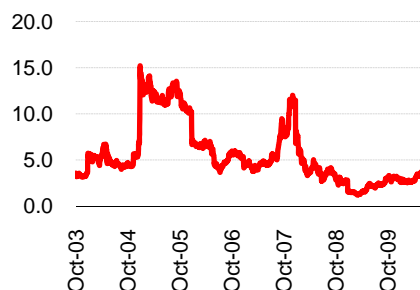
Source: Company, AMSEC

■ **Asset quality remains stable**

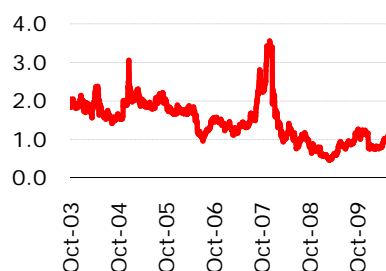
UCO Bank has been able to maintain comfortable asset quality. Gross NPA and net NPA ratio in 4QFY09 was 1.99% and 1.17% compared with 2.21% and 1.18% respectively. Provision coverage was 42% excluding technical write-offs and 50% including technical write-offs, which is below RBI's prescribed guidelines of 70%.

Valuation

1-Year Forward P/E



1-Year Forward P/ABV



- Attractive risk-reward ratio; Initiate with BUY recommendation**

UCO Bank is on a strong growth trajectory and is expected to outperform the Indian banking industry. It is expected to deliver healthy results in coming quarters, underpinned by strong growth in core operating income. We estimate earnings to grow at 30% CAGR over FY10-12E, led by improvement in NII and moderate fee income growth. We have adopted a conservative stance on asset quality and we factor in higher credit costs in FY11. We reassign UCO Bank its historic valuations underpinned by easing concerns on the Indian banking sector's asset quality and an expected pick-up in credit growth due to a swift recovery in the economy.

The valuation charts show that UCO Bank has traded at an average of 1x P/ABV over the past three years. We expect a re-rating in the valuation, supported by improved financial performance. In our view, UCO Bank's valuations will improve, given that it is expected to generate one of the best return ratios among peers. We believe the market has not fully recognized the Bank's fundamental strengths and the Bank deserves a better rating. We expect ROE of ~24% over the next two years and assign P/Adj BVPS of 1x for on FY12 adjusted book value.

We arrive at a price of Rs94, indicating 19% upside to the current market price. We believe the stock is attractively valued at 1.11x of FY11E adjusted P/BV of Rs73 and 0.86x of FY11 adjusted book value of Rs94. We recommend 'Buy' with a one-year target price of Rs94.

Risks to target price

- Rise in Benchmark bond yield may affect profitability**

UCO Bank has 27.4% of SLR bond portfolio in the AFS categories. Modified duration of the AFS portfolio is 4.93 years. This makes the Bank vulnerable to upside movement in g-sec bond yields. Bond yields softened significantly following the 3G auction; but they may go up again if GoI fails to keep fiscal deficit target under check or RBI takes a surprise decision on policy rate increases.

- Asset quality may deteriorate**

The Bank restructured substantial corporate and SME loans under RBI's special dispensation. These loans may slip into NPA categories, elevating the Bank's credit risk. Further, if monsoons are unfavorable this year, agriculture loans may see increased slippage, which would increase the risk of bad assets.

- Sharp decline in credit growth may hamper earnings growth**

Credit disbursement by the banking system has recovered remarkably in the current fiscal year after dipping to 17.6%. If credit growth does not pick up to 20-22% over FY11, along with the overall banking industry, UCO Bank's profitability may suffer.

Business profile

UCO Bank Ltd is a Kolkata-headquartered Public Sector Bank (PSB) with an asset size of ~Rs1,373bn and network of 2,152 branches and 478 ATMs. The Bank has a pan-Indian presence with a strong foothold in eastern and northern India. Incorporated as The United Commercial Bank Ltd in 1942, UCO Bank was nationalized in 1969 by GoI along with 13 other major commercial banks. Its name changed to UCO Bank in 1985 through an act of Parliament. The Bank made an initial public offering (IPO) in 2003 through which GoI diluted its holding to 75%.

UCO Bank's total business touched Rs2.06bn as on March 31, 2010, with deposits in excess of Rs1,224bn and advances of Rs834bn. Its credit-deposit ratio stood at 68.1% in 4QFY2010. The Bank's deposits and advances grew at 22.4% and 22.2% CAGR respectively during FY2006-10. Its Capital Adequacy Ratio stands at 13.2% at end-4QFY2010 with a high Tier-1 capital of 6.2%.

Fig. 9: Region-wise branches Mar '10

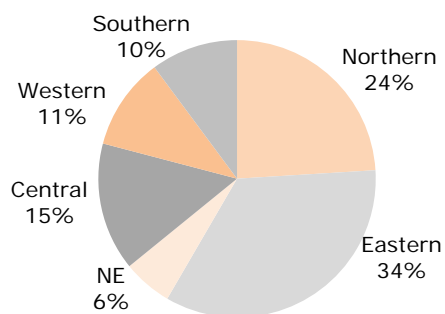
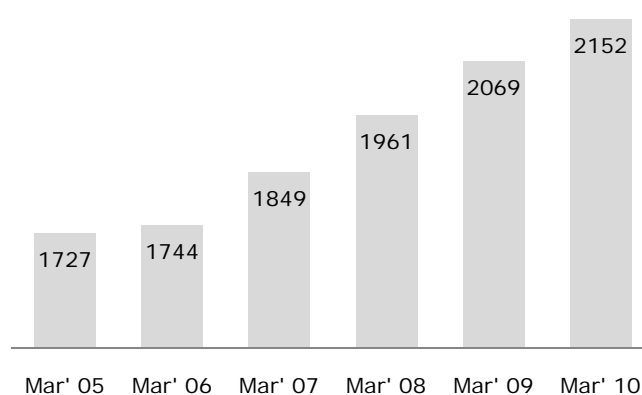


Fig. 10: No of branches



Source: : Company, AMSEC

UCO Bank – Financial Summary

Profit & Loss Statement

Rs Mn	FY09	FY10	FY11E	FY12E
Interest Earned	81,214	95,263	114,242	136,901
Interest Expenditure	64,767	72,022	84,178	99,805
Net Interest Income	16,447	23,241	30,064	37,096
Other Income	10,210	9,659	10,309	12,008
Net Operating Income	26,657	32,901	40,372	49,104
Operating Expenses	14,630	15,844	17,417	18,894
Operating Profit	12,027	17,056	22,955	30,210
Provisions & Contingencies	6,387	6,565	7,080	5,315
Tax Expenses	63	370	2,858	7,967
Adjusted Net Profit	5,577	10,122	13,018	16,929

BALANCE SHEET

Rs Mn	FY09	FY10	FY11E	FY12E
Capital And Liabilities				
Capital	12,494	16,994	29,594	32,594
Reserves Total	27,077	35,112	48,602	61,985
Deposits	1,002,216	1,224,155	1,450,624	1,711,736
Borrowings	20,624	62,638	55,122	63,390
Other Liabilities & Provisions	54,231	34,296	43,759	46,830
Total Liabilities	1,116,642	1,373,195	1,627,700	1,916,535
Assets				
Cash & Cash Equivalents	108,535	72,374	93,645	115,856
Investments	293,848	435,214	491,762	547,756
Advances	688,039	833,715	1,000,458	1,205,552
Fixed Assets	7,189	7,100	8,378	9,635
Other Assets	19,032	24,792	33,457	37,737
Total Assets	1,116,642	1,373,195	1,627,700	1,916,535

Per Share Data and Valuation

	FY09	FY10	FY11E	FY12E
No. of Shares	549	549	609	609
Earnings Per Share (Rs.)	10	18	21	28
Book Value Per Share (Rs.)	59	74	90	112
Adj. Book Value/Share (Rs.)	36	48	73	94
Dividend Per Share (Rs.)	1.00	1.50	1.75	2.00
Price/ Earnings (X)	2.80	3.07	3.79	2.91
Price/ BV (X)	0.48	0.76	0.90	0.72
Price/Adjusted BV (X)	0.79	1.17	1.11	0.86

Adequacy Ratio (%)

	FY09	FY10	FY11E	FY12E
Total CAR	11.9	13.2	14.0	13.6
Tier 1	6.5	7.1	8.1	8.3

Ratio

	FY09	FY10	FY11E	FY12E
Growth Ratio YoY (%)				
Advances	24.9	21.2	20.0	20.5
Deposits	25.4	22.1	18.5	18.0
Net interest Income	10.5	41.3	29.4	23.4
Fee Income	32.0	-5.4	6.7	16.5
Provisions Expense	10.8	2.8	7.9	-24.9
Net Profit	35.3	81.5	133.4	30.0
ROA Decomposition (%)				
NII / Assets	1.5	1.7	1.8	1.9
Other income / Assets	0.9	0.7	0.6	0.6
Net Income / Assets	2.4	2.4	2.5	2.6
Operating Profit / Assets	1.1	1.2	1.4	1.6
Return on Avg Assets	0.6	0.8	0.9	1.0
ROE	17.1	24.9	23.8	24.9
Yields / Margins (%)				
Average Yield on funds	8.8	8.3	8.2	8.4
Average cost of Funds	6.8	6.0	5.8	5.9
Interest Spread	2.0	2.2	2.4	2.5
Net Interest Margin	1.6	1.8	2.0	2.1
Earnings Quality (%)				
Net Int. Inc/Net Income	61.7	70.6	74.5	75.5
Fee Income /Opr. Profit	84.9	56.6	44.9	39.7
Cost/Income	54.9	48.2	43.1	38.5
Effective Tax Rate	-8.8	1.1	18.0	32.0
Balance Sheet Ratio				
Credit / Deposit Ratio	68.7	68.1	69.0	70.4
Incremental C/D Ratio	67.6	65.6	69.7	78.5
Investment-Deposit Ratio	29.3	35.6	33.9	32.0
Investment / Assets	26.3	31.7	30.2	28.6
Cash-deposit Ratio	68.7	68.1	69.0	70.4
CASA Ratio	24.1	24.7	26.0	28.5
Gearing (Assets / Equity)	28.2	26.4	20.8	20.3
Asset Quality (%)				
Gross NPA/ Gross Advances	2.2	2.0	1.8	1.7
Net NPA/Net Advances	1.2	1.2	0.6	0.5
Provisioning Burden as % of PPP	53.1	38.5	30.8	17.6
Loan Loss Reserves / Gross NPA	45.8	42.0	70.2	69.8



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