

June 10, 2010

Rating	Accumulate
Price	Rs306
Target Price	Rs344
Implied Upside	12.5%
Sensex	16,658

(Prices as on June 9, 2010)

### Trading Data

Market Cap. (Rs bn)	154.5
Shares o/s (m)	505.1
Free Float	44.57%
3M Avg. Daily Vol ('000)	861.0
3M Avg. Daily Value (Rs m)	253.5

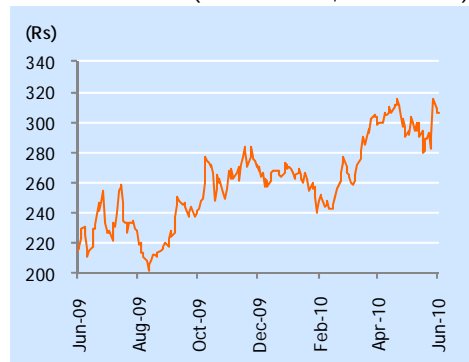
### Major Shareholders

Promoters	55.43%
Foreign	17.42%
Domestic Inst.	12.68%
Public & Others	14.47%

### Stock Performance

(%)	1M	6M	12M
Absolute	5.3	15.0	42.6
Relative	8.5	17.5	34.2

Price Performance (RIC: UNBK.BO, BB: UNBK IN)



Source: Bloomberg

We recently met Mr. M. V. Nair, CMD, Union Bank of India (UBI) and the key takeaways of the meeting are as follows:

- **Growth outlook maintained:** UBI remains comfortable with its FY11 guidance of 22% deposit growth and 25% advances growth. The FY11 YTD deposit growth for the bank is significantly higher than the current industry growth of 14-15%.
- **Margins to remain ~2.9% for FY11:** UBI had lost 93bps in NIMs from its peak (3.22% in Q3FY09) to trough (2.29% in Q1FY10) and regained 110bps with Q4FY10 NIMs at 3.4%. However, significant re-pricing benefits are already there in the margins, hence, going forward, margins are likely to stabilize at ~2.9% post the savings bank and CRR impact for FY11. NIMs stood at 2.7% for FY10.
- **Asset quality and re-structured portfolio status:** The management has guided for 15% slippages from the restructured portfolio, of which 8% has already slipped. This is likely to result in additional slippages of ~Rs5.4bn in coming quarters. Total stressed assets for UBI stood at Rs76.3bn, of which Rs49.6bn are from the restructured portfolio. Management has guided for a year-end GNPA ~2.1% and contains slippages between 1.7-1.9% in FY11.
- **Capital infusion plans:** The current Tier I is at 7.9% and a marginal token capital amount may be infused by the GOI to bring it up to 8% and then plan for larger capital issuances in the form of rights or other modes as preferred by the GOI during H2FY11.
- **Capital requirements for the insurance venture:** The life insurance venture doesn't require any funding in FY11. However, there could be a requirement of Rs500m in FY12. UBI has plans to garner insurance distribution fees equivalent to its funding requirements for the life insurance venture.
- **Current concern, lower deposit growth and bunching up of credit demand:** The banking sector had seen lot of sanctions related to infrastructure sector during FY10, where disbursements are yet to happen. The telecom sector will also have its fair share of loan demand post the 3G auctions. If pending disbursements start picking up in tandem with telecom demand, there could be a bunching-up of credit demand and some tightness in liquidity conditions. However, UBI's YTD deposit growth remains far higher than the system rate and hence, the bank is not unduly concerned at the current juncture if the situation pans out the way mentioned above.
- **Valuation and Outlook:** We have already factored in a 10% equity dilution into our estimates during our Q4FY10 result update. At CMP, the stock trades at 1.4x its FY11E ABV and 1.2x its FY12E ABV. UBI will continue to improve its core performance with no major overseas risk. Hence, we maintain our 'Accumulate' rating, with a price target of Rs344.

Key financials (Rs m)	FY09	FY10	FY11E	FY12E
Net interest income	38,136	41,924	50,642	62,722
<i>Growth (%)</i>	33.6	9.9	20.8	23.9
Operating profit	30,820	36,593	43,377	57,125
PAT	17,266	20,749	23,811	29,466
EPS (Rs)	34.2	41.1	42.9	53.0
<i>Growth (%)</i>	24.5	20.2	4.3	23.8
Net DPS (Rs)	5.0	5.2	6.5	6.5

Source: Company Data; PL Research

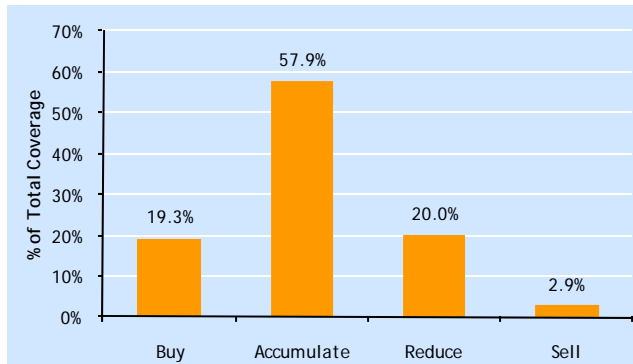
Profitability & valuation	FY09	FY10	FY11E	FY12E
<i>NIM (%)</i>	2.7	2.3	2.3	2.4
<i>RoAE (%)</i>	21.5	21.6	19.5	19.5
<i>RoAA (%)</i>	1.2	1.1	1.1	1.1
P / BV (x)	2.2	1.8	1.4	1.2
P / ABV (x)	2.1	1.8	1.4	1.2
PE (x)	8.9	7.4	7.1	5.8
<i>Net dividend yield (%)</i>	1.6	1.7	2.1	2.1

Source: Company Data; PL Research

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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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