



# IIFL

INDIA PRIVATE CLIENTS

## Weekly Wrap

### Investment idea

June 18, 2010

#### Union Bank of India

**BUY**  
CMP Rs314

##### Loan growth outperformance to continue

As in FY09, UBI's loan growth in FY10 was significantly higher than system at 23.6%. SME, Retail and Agriculture credit segments were the main drivers of robust growth. In FY11, UBI is targeting 25% loan growth; a material 5% above the system. Improving credit demand, robust branch expansion and various initiatives taken under the 'Nav Nirman' program back bank's confidence to outgrow industry. C/D ratio is expected to remain firm in the year with deposits growth targeted at lower 22%.

##### NIM to resume a stable trajectory H2 FY11 onwards; to be near 3% for FY11 and FY12

With the nasty impact of significant mobilization of high-cost deposits during Q2-Q4 FY09 behind, UBI's quarterly NIM is expected to exhibit considerably lesser volatility going ahead. We expect NIM to correct from 3.4% in Q4 FY10 to 3-3.1% in Q2 FY11 as CoD is set to rise from Q1 FY11 while YoA is anticipated to increase materially only from Q3 FY11. Recent deposit rate hike, savings interest calculation on daily basis and the 100bps CRR hike over the past 4 months is likely to push CoD by 20-30bps qoq in Q1 FY11. Over the longer term, we expect UBI's NIM to be near 3% for FY11 and FY12.

##### GNPL formation to moderate in FY11 and FY12; asset quality to improve gradually

UBI witnessed substantial slippages from the restructured assets portfolio in Q4 FY10 thereby increasing GNPL% to 2.2%. Though additional slippages could happen in H1 FY11, GNPL formation for the year is expected to be lower than FY10. It would further decline in FY12 driven by improvement in credit and economic environment. Moderation in GNPL formation and robust loan book growth would cap GNPL% near 2% over the next two years. The provisioning coverage is expected to remain above 70% in coming quarters.

##### Poised for material re-rating over the next 12 months

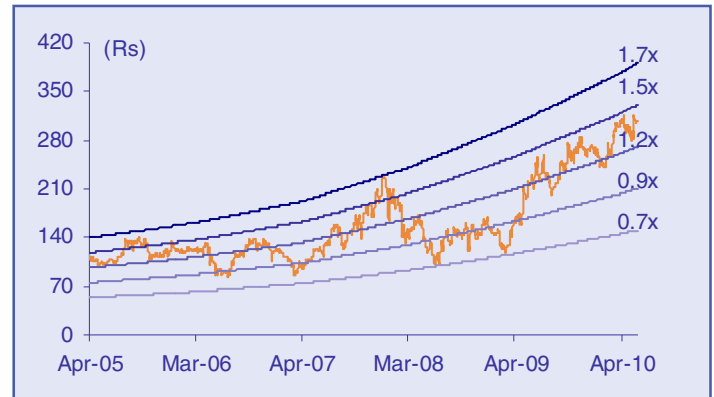
We believe that UBI would witness material valuation re-rating over the next 12 months driven by strong credit growth, stability in NIM, gradual improvement in asset quality and sustenance of above-industry RoA and RoE. The bank is our top pick amongst mid-sized PSBs as it offers the most attractive RoE-P/adj.BV mix. Based on our proprietary valuation model, Bank 20, we assign FY12 P/adj.BV multiple of 1.4x to UBI and arrive at one-year price target of Rs360.

#### Financials

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Total operating income	52,961	61,671	76,441	91,506
yoy growth (%)	26.9	16.4	23.9	19.7
Op profit (pre-provisions)	30,820	36,593	44,591	52,331
Net profit	17,265	20,749	24,352	29,145
yoy growth (%)	24.5	20.2	17.4	19.7
EPS (Rs)	34.2	41.1	48.2	57.7
BVPS (Rs)	139.7	174.4	216.3	266.6
P/E (x)	9.1	7.5	6.4	5.4
P/BV (x)	2.2	1.8	1.4	1.2
ROE (%)	27.2	26.2	24.7	23.9
ROA (%)	1.2	1.2	1.1	1.1

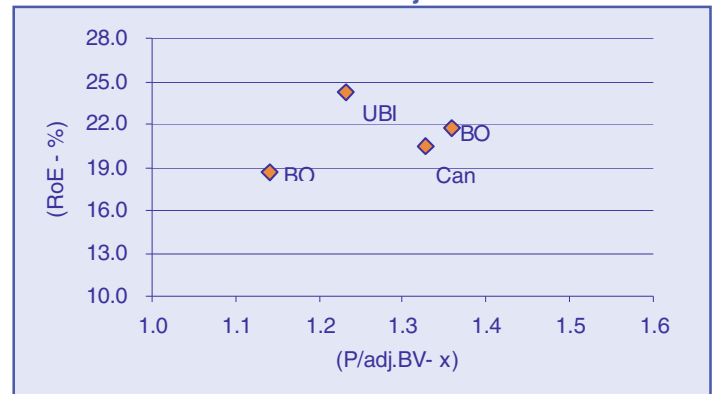
Source: Company, India Infoline Research

##### 1-yr rolling P/BV of UBI



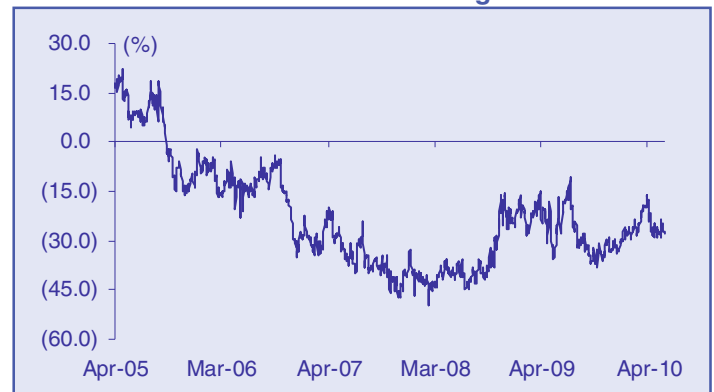
Source: Company, India Infoline Research

##### Offers most attractive RoE-P/adj.BV mix



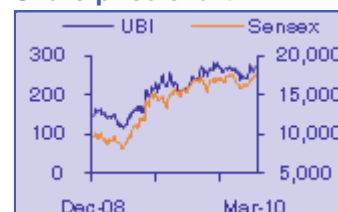
Source: Company, India Infoline Research

##### Valuation discount to SBI remains significant



Source: Company, India Infoline Research

##### Share price chart



Source: Company, India Infoline Research

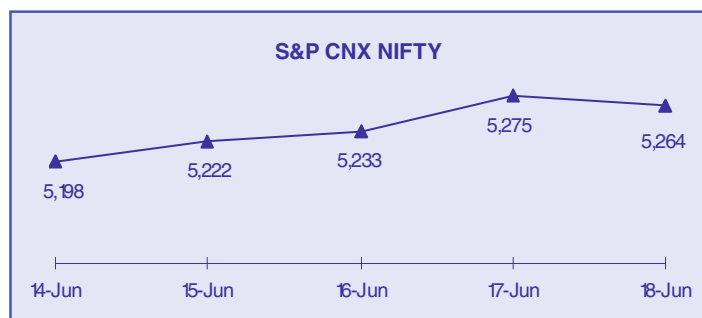
##### Shareholding pattern

March '10	(%)
Promoters	55.4
Institutions	30.1
Non promoter corp hold	4.6
Public & others	9.9

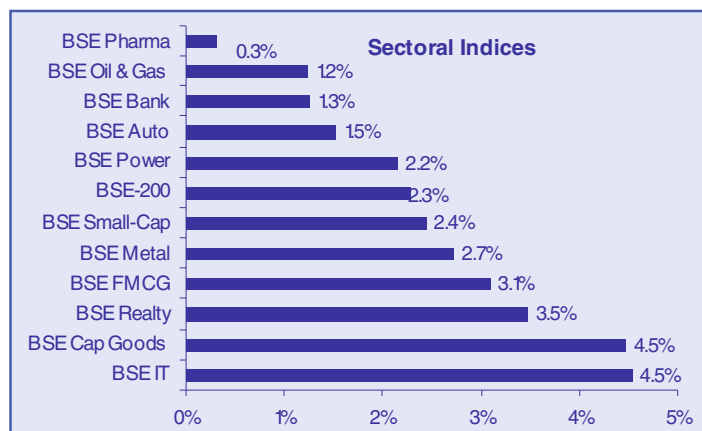
# India Infoline Weekly Wrap

## Market review

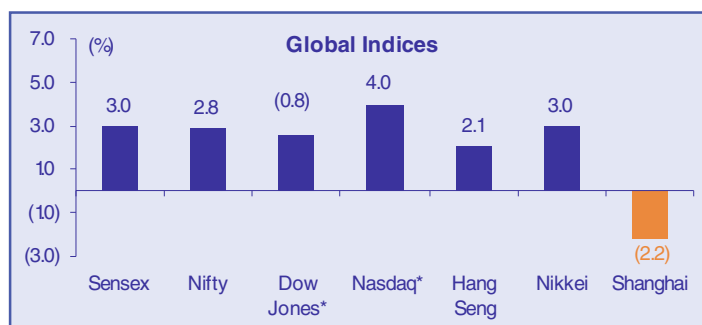
The bulls marched ahead confidently buoyed by strong advance tax numbers from index heavyweights and firm cues from the international markets. The bullish undertone was such that bulls chose to ignore worrying factors like double digit inflation numbers. India's inflation, unexpectedly accelerated in May to 10.16% from 9.59% in April. Finally, the BSE Sensex and the NSE Nifty both added 3%.



Capital goods stocks were among the major gainers on the back of strong IIP data signaling robust industrial growth in the economy. Real estate stocks were in demand after Bombay High Court quashed a government notification which raised the FSI in Mumbai's suburbs and extended suburbs from 1 to 1.33.



Dow Jones recovered back above 10k mark, as worries about Europe's debt woes hurting the American economic recovery eased and the euro rallied. Solid demand for government debt auctioned in Spain, Belgium and Ireland helped take the edge off euro-zone growth worries.



\*As per previous close

## FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
10-Jun	389	210
11-Jun	896	119
14-Jun	381	113
15-Jun	693	(209)
16-Jun	858	-
<b>Total 2010</b>	<b>24,140</b>	<b>(6,780)</b>

## BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
DLF	283	7.7	RNRL	63	20.6
L&T	1,799	7.2	MTNL	64	20.0
Rcom	185	7.0	Jai Corp	260	16.6
Infosys	2,786	5.9	LMW	1,984	12.0
Wipro	410	5.4	MMTC	32,049	11.8

## BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Grasim	1,760	(3.3)	Educomp Sol	516	(6.5)
Bharti Airtel	265	(3.1)	Chennai Pet	244	(5.7)
Dr Reddy'S	1,422	(3.0)	Areva T&D	289	(4.5)
Maruti Suzuki	1,351	(0.4)	Petronet Lng	78	(3.8)
Tata Steel	474	-	BPCL	522	(3.5)

## Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
14-Jun	Morgan Stanley	Everonn Edu	B	1.6	422
15-Jun	Sundaram BNP	Shasun Drug	B	2.6	72
16-Jun	Citigroup GI	TTK Prestige	B	1.0	855
17-Jun	LIC	Religare Ent	B	16.7	390

## Book closures and record dates

Company	Date	Purpose
HDFC	29-Jun-10	Dividend
LIC Housing Finance	29-Jun-10	Dividend
Tata Tea	30-Jun-10	Stock Split

## Insider Trades

Company	Name	B/S	Qty ('000)
OFSS	V.Shankar	S	1.0
JHS Svendgaard	Nikhil Nanda	S	65.0
M&M	Nadir B. Godrej	S	3.0
Action Const	Vijay Agarwal	B	60.3

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## Technical ideas

### GE Shipping BUY CMP Rs299



GE shipping has given a breakout from consolidating symmetrical triangle after the price closed above Rs294. The amplitude of the triangle is Rs20 (285-305) and hence we can expect stock to rally towards levels of Rs315 in the coming sessions. The stock has also bounced back from its 200-DMA, suggesting inherent strength in the counter and based on an optimistic scenario, prices can even test Rs345 given the fact that the triangle has appeared in middle of the rally.

Positive crossover in RSI and minor double bottoms pattern in stochastic indicates that buying momentum is about to resume from current levels. As support for triangle is placed at levels of Rs285, the breakout will be considered as void if prices close below the levels of Rs285.

We advise buying stock in range of Rs295-Rs300 with stoploss of Rs 289 for target of Rs Rs 320.

### Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
SBIN	0.8	8.9	15.2
Mcdowell -N	1.1	8.8	8.3
Bank of India	1.6	7.5	53.0
ITC	0.1	4.8	17.2
JP Power	2.6	4.7	72.4

### Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
SBI	2,373	2,327	21.0	20.2
Mphasis	589	578	6.2	5.8
Unitech	71	70	363.4	333.6
Voltas	190	187	13.5	13.4
Rolta	167	165	7.6	7.1

### Reliance Communications SELL CMP Rs185



On the daily chart, the stock seems to have appeared on an interesting juncture, placed around its 200-DMA. The stock had rallied smartly from the lows of Rs131 in May 2010 to a high of Rs196 on Friday, which has acted as a critical resistance for the stock.

The stock has struggled to close above its 200-DMA in last three trading sessions. Inability for the stock to close above its 200-DMA this week has seriously dampened any hopes of a continuation in the pullback rally.

The daily RSI has generated a negative crossover sell signal, suggesting build-up of momentum on the downside. A break below the level of Rs183 will see the stock confirming the declining trend for immediate price target of Rs166. We recommend traders to sell the stock in the range of Rs188-183 with a stop loss of Rs196 for a target of Rs166.

### Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Tulip	(1.2)	16.0	680.6
Hind Zinc	(3.6)	12.6	14.7
BPCL	(2.5)	9.7	34.3
GMR Infra	(0.9)	7.9	114.5
Grasim	(1.3)	7.3	11.4

### Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
GHCL	46	46	2.0	1.8
BF Utilities	695	709	1.1	0.9
BOB	704	731	5.7	5.1
JSW Steel	1,039	1,045	20.6	22.1
Hotel Leela	46	46	8.8	8.1

# India Infoline Weekly Wrap

## Mutual fund round-up

### India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on Jun 17, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	7,490	190.8	1.9	3.7	4.9	9.0	37.3	45.2	64.0	241.4
ICICI Pru Dynamic Plan (G)	2,160	98.8	1.7	3.7	4.6	11.8	45.0	35.6	43.9	245.3
ICICI Prudential Tax Plan (G)	1,159	129.9	2.1	2.4	3.3	10.8	55.6	36.1	43.5	144.0
IDFC Small & Midcap Eqty - (G )	687	17.1	1.8	1.6	7.4	16.4	54.4	81.2	--	--
Reliance Growth Fund (G)	7,272	455.0	1.8	2.8	4.2	10.9	43.5	33.1	55.0	241.4

### Fund this week: IDFC Small & Midcap Equity Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Kenneth Andrade	Equity	85.3
Latest NAV	Rs17.1	Debt	5.8
NAV 52 high/low	Rs17/10	Cash/call	8.9
Latest AUM (cr)	Rs687	Top 5 holdings (%)	
Type	Open-ended	Nestle India	4.2
Class	Equity - Diversified	Dewan Housing	3.7
Options	Growth & dividend	Strides Arcolab	3.6
Min investment	Rs5,000	Spicejet Ltd.	3.0
Benchmark	CNX Midcap	Mundra Port & SEZ	2.9
No. of stocks	44	Top 3 sectors (%)	
No. of sectors	30	Pharma	9.0
Expense ratio	2.1%	Breweries & Distilleries	5.0
Exit load	1% <1 yr	Others	4.7

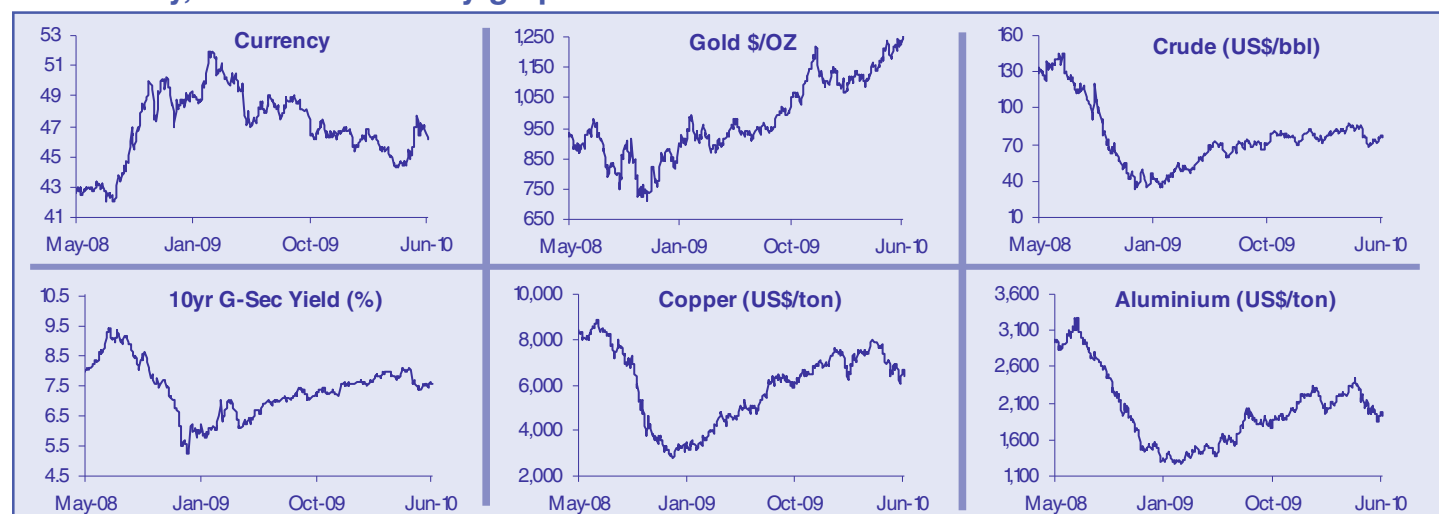
### NFO update

Fund Name	Close	Type	Class
ICICI Pru Nifty Jr Index Fund	21-Jun	OE	Equity - Index
Axis Income Saver	21-Jun	OE	Hybrid
Fidelity FMP Series II (370D)	29-Jun	CE	Debt - FMP

### Dividend update

Mutual Fund	Dividend %	Record date	Class
Tata Equity Opportunities	5.0	22-Jun	Equity - div
Reliance Short Term - DQ	1.8	21-Jun	Debt
Reliance Medium Term - DQ	1.4	21-Jun	Debt

## Commodity, debt and currency graphs



\* As per previous close

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