

May 8, 2007

BUY

Price	Target Price
Rs109	Rs150
Sensex	13,879

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(3)	(18)	(14)
Rel. to Sensex	(2)	1	(22)	(24)

Source: Capitaline

Stock Details

Sector	Banks
Reuters	UNBK.BO
Bloomberg	UNBK@IN
Equity Capital (Rs mn)	5051
Face Value	10
52 Week H/L	142/81
Market Cap	Rs55.0bn/US\$1.3bn
Daily Avg Volume (No of shares)	978,016
Daily Avg Turnover (US\$)	2.5mn

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	55.4
FII	19.7
Institutions	9.0
Private Corp.	2.4
Public	13.5

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Union Bank of India

Quarterly
Update

Ahead of expectations

Union Bank of India's (UBI) Q4FY07 net profit at Rs2.28bn was ahead of our estimates. The better than expected performance, was driven by strong operational performance with NII growth of 27.6% yoy (Rs7.4bn, adjusted), core fee income growth of 36.5% yoy (Rs860mn) and operating profit growth of 51.8% yoy (Rs6.1bn, adjusted). The robust operational performance was outcome of much favorable loan mix, improving CASA and resulting improvement in NIM.

The asset quality continues to improve with both, GNPA and NNPA declining in absolute as well as percentage terms. The GNPA as on March 2007 stood at 2.94% and NNPA at 0.96%

We have upgraded our FY08E and FY09E FDEPS by 2.5% and 2.3% respectively to Rs19.7 and Rs25.2 respectively. At the current market price of Rs109, the stock is quoting at 4.3x its FY09E EPS and 1.0x FY09E ABV. We maintain our BUY recommendation with price target of Rs150.

Better asset mix and CASA drive NII

UBI's NII (adjusted for one-time income) grew by 27.6% yoy to Rs7.4bn. During the quarter under review the bank has earned one-time interest on CRR balances (Rs270mn), interest on IT refunds (Rs570mn) and other one time income of Rs180mn.

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Reported NII	8,424	5,979	6,859	40.9	22.8
Less: One time income	1,020	1,780	-	-	-
Adjusted NII	7,404	5,801	6,859	27.6	7.9

The strong growth in NII was driven by better loan mix in favor of retail and SME advances and also improvement in CASA of 215bps yoy which resulted in a strong 42bps expansion in adjusted NIM.

Yield analysis

%	Q4FY07	Q4FY06	Q3FY07	Change in bps yoy	Change in bps qoq
Yield on assets	8.39	7.21	7.54	117.5	84.1
Cost of funds	5.27	4.52	4.75	75.1	52.4
NIM	3.11	2.69	2.80	42.4	31.7

Source: Company, Emkay Research

Note: Adjusted for one-time income

Deposit mix

Rs bn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
CASA	306.7	239.8	269.8	20.0	15.0
Total deposits	889.1	741.0	772.9	27.9	13.7
CASA ratio (%)	34.5	32.4	34.9		

Source: Company, Emkay Research

Advances mix

%	Rs bn	% yoy change	% qoq change	% of portfolio	Change in bps yoy	Change in bps qoq
Retail	144	24.3	10.2	23	92	21
SME	110	35.1	40.5	17	202	385
Agriculture	89	30.7	-8.5	14	123	-270
Others	294	9.4	6.1	46	-417	-136
Total	637	19.3	9.2	100		

Source: Company, Emkay Research

Strong core fee income growth drives other income

The other income during the quarter under review grew by a strong 39% yoy (despite a drop in treasury income) driven by strong growth in core fee income (36.5% yoy) and higher Forex gains (36.7% yoy).

Other income

Rs mn	Q4FY07	Q4FY06	% yoy chg
CEB	860.0	630.0	36.5
Forex	670.0	490.0	36.7
Treasury income	130.0	200.0	-35.0
Others	1,138.0	1,192.0	-4.5
Amortisation	-380.0	-390.0	
Total	2,418.0	1,740.0	39.0

Source: Company, Emkay Research

Adjusted operating profit reports strong growth

While the reported operating profit has grown by 80.4% yoy to Rs7.58bn, adjusted for one-time income as mentioned earlier and write-back of AS-15 provisions (Rs450mn), the operating profit has still grown by a robust 51.8% yoy to Rs6.1bn. The core operation profit of the bank has grown by 56.4% yoy to Rs6.0bn.

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Reported operating profit	7,583	4,204	4,659	80.4	62.8
Less:					
Write back of expenses	450	-	-	-	-
One-time income	1,020	178	-	-	-
Adjusted operating profit	6,113	4,026	4,659	51.8	31.2
Less: Treasury income	130	200	300	-	-
Core operating profit	5,983	3,826	4,359	56.4	37.3

Source: Company, Emkay Research

Note: Operating profit for quarters includes amortisation expenses

Higher profits prudently used for provisioning

The bank has prudently used better profitability for provisioning for bad loans as the NPA provisioning has almost doubled over last year. The provisioning cover on bad loans now stands at 67.4% as on March 2007 compared with 60% last year.

Rs bn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
NPA related provisions	1.6	0.9	0.5	77.1	209.8
As % of advances	0.25	0.17	0.09		
One-time provisions	0.8	0.8	0.3	-6.0	169.0
Other provisions	0.8	0.3	0.2	194.1	239.0
Total provisions	3.2	2.0	1.0	58.5	205.0

Source: Company

Valuations and view

We have upgraded our FY08E and FY09E FDEPS by 2.5% and 2.3% respectively to Rs19.7 and Rs25.2 respectively. At the current market price of Rs109, the stock is quoting at 4.3x its FY09E EPS and 1.0x FY09E ABV. We maintain our BUY recommendation with price target of Rs150.

	FY08E	FY09E
Old estimates	19.3	24.7
New estimates	19.7	25.2
% change	2.5	2.3

Quarterly results

Rs mn	FY07	FY06	% yoy chg	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
NII	27,903	23,743	17.5	8,424	5,979	6,859	40.9	22.8
Other Income	6,865	4,940	39.0	2,418	1,740	1,660	39.0	45.7
<i>Fee income</i>	<i>2,740</i>	<i>2,190</i>	<i>25.1</i>	<i>860</i>	<i>630</i>	<i>660</i>	<i>36.5</i>	<i>30.3</i>
Net income	34,768	28,683	21.2	10,841	7,719	8,519	40.5	27.3
Operating expenses	14,759	14,024	5.2	3,259	3,515	3,860	-7.3	-15.6
Pre-Provision profits	20,009	14,659	36.5	7,583	4,204	4,659	80.4	62.8
Provisions	6,204	5,716	8.5	3,153	1,994	1,036	58.1	204.3
<i>NPA</i>	<i>3,300</i>	<i>1,343</i>	<i>145.7</i>	<i>1,580</i>	<i>892</i>	<i>510</i>	<i>77.1</i>	<i>209.8</i>
Profit before tax	13,804	8,943	54.4	4,430	2,209	3,623	100.5	22.3
Taxes	5,350	2,195	143.8	2,144	755	1,067	184.1	101.0
Net Profit	8,454	6,748	25.3	2,286	1,455	2,556	57.1	-10.6

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2006	29,994	6,752	13.4	64.5	0.8	16.5	1.7	8.2
FY2007E	34,768	8,454	16.7	72.1	1.0	20.8	1.5	6.1
FY2008E	38,586	10,729	19.7	89.7	1.0	20.2	1.2	5.5
FY2009E	45,251	13,719	25.2	107.8	1.0	21.5	1.0	4.3

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