

**MAY 13, 2013**
**BUY**
**MEDIUM RISK**
**PRICE Rs.240**
**TARGET Rs.296**

## BFSI

### EARLIER RECO

BUY	
Price	Rs.234
Target	Rs.296
Date	Feb.12, 2013

### SHARE HOLDING (%)

Promoters	57.9
FII	10.6
FI	18.0
Body Corporates	5.4
Public & Others	8.1

### STOCK DATA

Reuters Code	UNBK.BO
Bloomberg Code	UNBK IN
BSE Code	532477
NSE Symbol	UNIONBANK
Market Capitalization*	Rs.143.2 bn / US\$ 2.6 bn
Shares Outstanding*	596.8 mn
52 Weeks (H/L)	Rs.288 / 150
Avg. Daily Volume (6m)	1,656,718 Shares

### Price Performance (%)

1M	3M	6M
13	2	5

**200 Days EMA: Rs.236**

\*On fully diluted equity shares

 Part of  **Bonanza**


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Union Bank of India (UBI) has reported decent numbers and ahead of expectations. NII growth remained soft while non-interest income growth was high on sharp trading gains; stabilization seen in asset quality, while lower tax & comparatively lower credit cost helped growth in PAT during Q4FY13.

### Key Highlights of Q4FY13

- During Q4FY13, NII grew by 5% YoY to Rs.19.8 bn, on the back of decent Advances growth. Its Advances grew 15% YoY, mainly on back of sharp growth of 46% YoY in MSME segment and 23% YoY growth in agriculture. Its Deposits grew by 18% YoY, while CASA grew by 17% YoY as current account showed sharp growth of 25% YoY and growth in saving deposits was 14% YoY. Its CASA share stood at 31.0%, stable YoY & QoQ. The Bank has shed its high cost bulk deposit to bring its proportion down to 8.8% of total deposits (Sequentially shows increase by 50 bps).
- The Bank reported a decent non-interest income growth of 16% YoY mainly driven by sharp trading gains while fee income growth continued to be sluggish.
- The Bank's operating expense increased by 13% YoY with employee expense increasing by 12% YoY but was down 9% QoQ as it wrote-back some expenses provisions. Other operating expenses increased by 15% YoY as the Bank continued to expand its branch and ATM network in Q4FY13.
- UBI's total provisions in Q4FY13 increased by 27% YoY, whereas it decreased by 24% QoQ to Rs.6.55 bn with loan losses & standard assets provisions at Rs.3.13 bn against Rs.3.65 bn in Q4FY12. Investment provisions increased 43% YoY as some restructured debt portions converted to equity required Mark-to-Market provisions. As a result, Net profit grew by 2% YoY (partly helped by lower tax expenses) and 161% QoQ to Rs.7.89 bn.

### Downward pressure on NIMs continue, likely to continue for few more quarters

- In Q4FY13, NIMs stood at 2.89%, contracting 37bps YoY & 6bps QoQ, mainly due to decrease in yields on advances (Bank had cut base rate in Q4) and cost of funds did not decline materially (came down only on shedded high cost deposits). Going ahead, the Bank issued concern of pressure on NIMs but will target to keep NIMs in 2.9%-3% range as it expects cost of funds to ease further mainly on repriced bulk deposits to benefit in coming quarters. We have kept our NIM estimate at 2.83% in FY14E, down 13 bps from 2.96% in FY13 as further base rate cuts would put pressure on Yields immediately, while cost of funds will remain sticky for some time before easing going ahead.

### Asset quality improves as fresh slippages stabilize, recoveries continue

- During the quarter, the Bank's incremental delinquencies was at Rs.8.75 bn (1.7% annualised v/s 1.4% in Q3FY13) mainly contributed by few accounts of Rs.500-Rs.1000 mn but otherwise spread. The Bank added Rs.14 bn to restructured portfolio and it hinted a pipeline of Rs.22 bn quarters ahead with major being from Iron & Steel, Construction and Textiles sectors. The cumulative restructured loan portfolio now stands at Rs.169.6 bn or 8.2% of advances (outstanding at Rs.116.3 bn or 5.6% of advances). The Bank holds their strategy to arrest fresh slippages and speed up recoveries in smaller accounts and also focus to recover large accounts in the subsequent quarters. Although asset quality has improved, we expect some bad loans may crop up in Q1FY14 (trend also suggests) but recoveries and upgradations will keep asset quality stable.
- In absolute terms, Gross NPAs increased by 16% YoY but decreased 1% QoQ and Net NPAs increased by 11% YoY and 6% QoQ. In percentage terms, Gross NPAs stood at 3.0%, down 3bps on YoY & 38bps on QoQ basis. Net NPAs stood at 1.6%, down 9bps YoY & QoQ respectively in Q3FY13.

## OUTLOOK & VALUATION

Union Bank's core performance continues to remain steady on back of decent biz growth and maintained NIMs (though now in pressure). The Bank has surprised positively on asset quality and has been able to manage it quite well. Considering decent Q4FY13 results, we have slightly tweaked our estimates by slightly reducing business growth and NIMs for FY14E, while also introduced our FY15E. Going forward, we expect its Advance & Deposit to grow by 16.7% & 17.1% respectively in FY14E and 18.2% & 17.3% respectively in FY15E, while Net Profit to grow at 17% in FY14E & at 13% in FY15E. Focus on improving the asset quality, cautious view on lending to risky sectors, decent CASA profile emerge as key value drivers for the stock. UBI currently trades at a valuation of 0.9x FY15E ABV & 5.0x FY15E Earnings. We maintain "BUY" with a price target of Rs.296.

## KEY FINANCIALS

Y/E Mar.	EPS (Rs.)	EPS (% chg)	RoE (%)	NIM (%)	Net NPL(%)	CASA (%)	CAR (%)	P/ABV (x)	PER (x)	Div. Yield(%)
FY12	32.5	(18.2)	14.7	3.2	1.7	31.3	11.9	1.3	7.4	3.3
FY13E	36.2	11.4	15.0	3.0	1.6	31.0	11.5	1.2	6.6	3.3
FY14E	42.4	17.1	15.1	2.8	1.5	30.4	10.7	1.0	5.7	3.8
FY15E	47.7	12.6	15.2	2.7	1.2	29.7	10.4	0.9	5.0	4.0

## QUARTERLY RESULTS STATEMENT

(In mn)

Y/E March	Q4FY13	Q4FY12	YoY Chg	Q3FY13	QoQ Chg
Interest earned	66,251	57,434	15.4%	63,199	4.8%
- on Advances / Bills	50,559	43,840	15.3%	47,746	5.9%
- income on investments	14,953	12,228	22.3%	14,783	1.2%
- on bal with RBI and other banks	421	580	-27.4%	411	2.5%
- other	318	786	-59.6%	258	22.9%
Interest Expended	46,456	38,668	20.1%	44,284	4.9%
<b>Net Interest Income</b>	<b>19,795</b>	<b>18,766</b>	<b>5.5%</b>	<b>18,915</b>	<b>4.7%</b>
Other income	8,755	7,554	15.9%	6,395	36.9%
- Treasury Income	2,350	1,270	85.0%	1,120	109.8%
<b>Operating Income</b>	<b>28,550</b>	<b>26,320</b>	<b>8.5%</b>	<b>25,310</b>	<b>12.8%</b>
- Employee expenses	6,641	5,948	11.7%	7,327	-9.4%
- Other Operating expenses	5,062	4,384	15.5%	4,399	15.1%
Total Operating Expenses	11,703	10,332	13.3%	11,726	-0.2%
<b>Operating Profit</b>	<b>16,846</b>	<b>15,988</b>	<b>5.4%</b>	<b>13,584</b>	<b>24.0%</b>
Provisions and contingencies	6,555	5,172	26.8%	8,573	-23.5%
- NPL & Std Provisions	3,130	3,650	-14.2%	6,530	-52.1%
<b>PBT</b>	<b>10,291</b>	<b>10,816</b>	<b>-4.9%</b>	<b>5,010</b>	<b>105.4%</b>
Provision for Tax	2,397	3,085	-22.3%	1,986	20.7%
<b>PAT</b>	<b>7,894</b>	<b>7,732</b>	<b>2.1%</b>	<b>3,024</b>	<b>161.0%</b>
EPS	14.3	14.0	2.1%	5.5	161.0%
<b>PPP (Ex-Treasury)</b>	<b>14,496</b>	<b>14,718</b>	<b>-1.5%</b>	<b>12,464</b>	<b>16.3%</b>

Business	Q4FY13	Q4FY12	YoY Chg	Q3FY13	QoQ Chg
Advances	2,081,022	1,810,310	15.0%	1,899,970	9.5%
Deposits	2,637,616	2,228,690	18.3%	2,393,550	10.2%
- CASA Deposits	816,350	697,050	17.1%	748,010	9.1%
- Term deposits	1,821,266	1,531,640	18.9%	1,645,540	10.7%
Gross NPLs	63,138	54,499	15.9%	63,836	-1.1%
Net NPLs	33,534	30,250	10.9%	31,685	5.8%

Ratio (%)	Q4FY13	Q4FY12	YoY chg (bps)	Q3FY13	QoQ chg (bps)
Gross NPLs	3.0	3.0	(3)	3.4	(38)
Net NPLs	1.6	1.7	(9)	1.7	(9)
ROA Annualized	1.1	1.3	(23)	0.4	64
ROE Annualized	11.9	21.6	(969)	8.5	339
C/I Ratio	44.7	41.2	342	48.5	(381)
CAR	11.5	11.9	(40)	10.8	67
-Tier I	8.2	8.4	(14)	7.4	83
Yield on Advances	10.9	11.3	(35)	11.1	(16)
Yields on Investment	7.3	7.0	38	7.4	(8)
Cost of Funds	6.4	6.5	(18)	6.4	(4)
Net Interest Margin	2.9	3.3	(37)	3.0	(6)
CASA Ratio	31.0	31.3	(33)	31.3	(30)
Credit / Deposit ratio	78.9	81.2	(233)	79.4	(48)

Source: Company, Sushil Finance Research Estimate

**PROFIT & LOSS STATEMENT**

(Rs.mn)

Y/E March	FY12	FY13	FY14E	FY15E
Interest Income	211.4	251.2	289.1	331.4
Interest Expense	142.4	175.8	203.2	233.5
<b>Net interest Income</b>	<b>69.1</b>	<b>75.4</b>	<b>85.9</b>	<b>97.9</b>
<i>NII Growth %</i>	<i>11.1</i>	<i>9.2</i>	<i>13.8</i>	<i>14.1</i>
Other Income	23.3	25.5	28.3	31.1
- Treasury profits	4.4	4.8	5.6	6.5
<b>Total Income</b>	<b>92.4</b>	<b>100.9</b>	<b>114.1</b>	<b>129.1</b>
Operating Expenses	39.9	45.1	52.6	60.8
<b>Pre-provision Profit</b>	<b>52.5</b>	<b>55.8</b>	<b>61.5</b>	<b>68.3</b>
Total Provisions	25.4	25.2	24.8	26.4
- NPL & Stnd Provision	17.4	17.8	18.8	20.2
<b>PBT</b>	<b>27.1</b>	<b>30.6</b>	<b>36.6</b>	<b>41.9</b>
Tax	9.3	9.1	11.4	13.4
<b>PAT</b>	<b>17.9</b>	<b>21.6</b>	<b>25.3</b>	<b>28.5</b>
<i>PAT Growth %</i>	<i>(14.2)</i>	<i>20.7</i>	<i>17.1</i>	<i>12.6</i>
<b>PPP (Ex Treasury)</b>	<b>48.1</b>	<b>51.1</b>	<b>55.8</b>	<b>61.8</b>
<i>PPP Growth %</i>	<i>25.3</i>	<i>6.1</i>	<i>9.4</i>	<i>10.8</i>

**BALANCE SHEET STATEMENT**

(Rs.mn)

As on 31 <sup>st</sup> March	FY12	FY13E	FY14E	FY15E
Cash Balances	156.8	162.1	212.8	257.1
Advances	1,778.8	2,081.0	2,428.8	2,870.2
Investments	623.6	808.3	944.6	1,092.6
- Govt. Securities	504.8	646.2	775.4	915.0
Fixed assets	23.4	24.8	23.6	22.4
Current assets	39.5	42.4	48.7	56.1
<b>Total Assets</b>	<b>2,622.1</b>	<b>3,118.6</b>	<b>3,658.5</b>	<b>4,298.4</b>
Equity Cap	5.5	6.0	6.0	6.0
Preference Cap	1.1	1.1	1.1	1.1
Reserves and Surplus	139.7	165.9	184.7	206.4
<b>Shareholders' Funds</b>	<b>146.3</b>	<b>173.0</b>	<b>191.8</b>	<b>213.5</b>
Deposits	2,228.7	2,637.6	3,087.9	3,620.8
- Demand deposits	697.1	816.4	938.8	1,074.1
- Term deposits	1,531.6	1,821.3	2,149.1	2,546.7
Borrowings	150.1	201.0	261.3	334.4
- Subordinated debt	29.0	37.0	37.0	37.0
Current Liabilities	68.0	70.1	80.6	92.7
<b>Total Liabilities</b>	<b>2,622.1</b>	<b>3,118.6</b>	<b>3,658.5</b>	<b>4,298.4</b>

**FINANCIAL RATIO STATEMENT**

Y/E March	FY12	FY13E	FY14E	FY15E
<b>Profitability Ratios</b>				
EPS (Rs)	32.5	36.2	42.4	47.7
Earnings growth (%)	(18.2)	11.4	17.1	12.6
CEPS (Rs)	35.1	38.7	45.1	50.6
PPP / Share (Rs)	95.4	93.5	103.0	114.5
ROAA (%)	0.7	0.8	0.7	0.7
ROAE* (%)	14.7	15.0	15.1	15.2
DPS (Rs)	8.0	8.0	9.0	9.5
Dividend Payout (%)	28.7	26.0	25.0	23.4
<b>Efficiency Ratios (%)</b>				
C-I ratio (Excl Treasury)	45.3	46.9	48.5	49.6
Salary / Non Int. Cost	62.2	61.1	61.7	62.1
Other Inc (Ex tr.) / Net Total Inc (Ex Tr.)	21.5	21.6	20.9	20.1
Cost Asset Ratio	1.5	1.4	1.4	1.4
CASA	31.3	31.0	30.4	29.7
Tax Rates	34.1	29.6	31.0	32.0
<b>Asset Quality Ratios (%)</b>				
Gross NPLs	3.0	3.0	2.9	2.8
Net NPLs	1.7	1.6	1.5	1.2
Coverage (Reported)	59.4	67.5	68.3	70.8
Provision / Loans	1.0	0.9	0.8	0.7

Y/E March	FY12	FY13E	FY14E	FY15E
<b>Asset-Liab. Profile (%)</b>				
Capital Adequacy Ratio	11.9	11.5	11.2	10.9
- Tier I CAR	8.4	8.2	7.9	7.8
Adv. / Deposit Ratio	79.8	78.9	78.7	79.3
Loan Growth	17.8	17.0	16.7	18.2
Deposit Growth	10.1	18.3	17.1	17.3
Balance Sheet Growth	11.1	18.9	17.3	17.5
Equity / Assets	5.6	5.5	5.2	5.0
Equity / Loans	8.2	8.3	7.9	7.4
<b>Spreads Analysis (%)</b>				
Yield on Advances	9.7	9.9	9.6	9.4
Yield on Investments	7.6	7.9	7.8	7.7
Cost of funds	6.2	6.7	6.5	6.3
Net Interest Margin	3.2	3.0	2.8	2.7
<b>Valuation</b>				
Dividend Yield (%)	3.3	3.3	3.8	4.0
BV / Share*	237.9	264.1	295.7	332.1
Adjusted BV / Share*	183.0	207.9	236.4	272.6
P/E (x)	7.4	6.6	5.7	5.0
P/PPP (x)	2.5	2.6	2.3	2.1
<b>P/ABV (x)</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>

Source : Company, Sushil Finance Research Estimates

\*Excluding Revaluation Reserve

## Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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