

November 2, 2011

Reco	Previous Reco
HOLD	Accumulate
CMP	Target Price
Rs71	Rs73
EPS change FY12E/13E (%)	-18/-21
Target Price change (%)	-34
Nifty	5,258
Sensex	17,465

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(22)	(26)	(45)
Rel. to Nifty	(10)	(20)	(22)	(36)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Banks
Bloomberg	UNTDB@IN
Equity Capital (Rs mn)	3444
Face Value(Rs)	10
No of shares o/s (mn)	344
52 Week H/L	137/70
Market Cap (Rs bn/USD mn)	24/487
Daily Avg Volume (No of sh)	104924
Daily Avg Turnover (US\$m)	0.2

### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	85.5	85.5	85.5
FII/NRI	1.1	1.6	3.2
Institutions	2.1	2.2	2.0
Private Corp	7.7	7.2	5.8
Public	3.6	3.6	3.6

Source: Capitaline

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- **UNTDB's NII (Rs6.2bn) marginally ahead of expectations. Net profit at Rs1.25bn was dragged by higher NPA provisions and tax outflow. Slippages at Rs6.2bn was a key -ve**
- **Deposits were up 1.5% qoq; CASA ratio remains strong at ~40% levels. NIM expansion was aided by improvement in LDR and broad based loan growth**
- **... however, with net NPL/network at high 27%, tier-I CAR, adjusted for same, will fall to sub-7%. Resultant, growth rate is set to moderate. Factoring 16% loan CAGR over FY11-13E**
- **Lowered our FY12/FY13 earnings estimates by 18%/21% by factoring in relatively higher credit cost, growth moderation and margin compression. Downgrade to HOLD with tp of Rs73**

### P&L largely inline; asset quality deterioration continues

UNTDB's Q2FY12 NII at Rs6.2bn was marginally ahead of expectations. NII growth was aided by improvement in LDR and 3.2% sequential growth in loan portfolio. However, growth in non-interest income came in at mere 7% yoy to Rs 1.6bn. Further with higher provision NPA and tax outflow, net profit at Rs1.25bn (+13.7% yoy) was lower than our estimates. Asset quality surprised on -ve end with GNPA at Rs19bn up 31% yoy. Slippages during the quarter came in at Rs6.2bn (3.7% annualized).

On the balance sheet front, loan growth at 17.3% yoy was largely broad based. NIM at 3.16% improved 14bps qoq (11bps yoy). Deposits were up 1.5%qoq; savings deposits grew 2.4% qoq. CASA ratio has remained at healthy 40% levels; core deposits improved by 470bps yoy to 81%.

### Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	9.7	9.9	10.1	10.5	11.0	130	47
Yield on investments*	6.6	6.6	6.5	6.7	6.8	18	10
Yield on assets*	7.7	8.0	8.2	8.2	8.6	91	41
Cost of funds*	5.0	5.3	5.5	5.7	5.9	83	18
NIM*	2.7	2.7	2.7	2.5	2.8	8	23
Yield on advances #	9.9	10.4	10.7	11.2	11.7	180	54
Cost of deposits #	5.6	5.7	6.0	6.4	6.6	106	25
NIM #	3.1	3.2	3.1	3.0	3.2	11	14

Source: Company, Emkay Research Note\* Calculated on basis of average quarterly balances #reported

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	19,500	3,224	10.2	67.1	0.5	10.4	7.8	1.1
FY2011E	28,064	5,240	15.2	87.2	0.6	13.8	4.8	0.8
FY2012E	31,993	5,167	15.0	83.3	0.5	11.8	4.9	0.9
FY2013E	36,813	8,530	24.8	103.7	0.8	17.8	2.9	0.7

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	5,262	5,597	5,748	5,690	6,235	18.5	9.6	11,925	10,348	15.2
Other Income	1,516	1,457	2,192	1,698	1,620	6.9	-4.6	3,318	2,722	21.9
Fee Income	430	434	442	452	436	1.4	-3.5	888	865	2.6
Net Income	6,778	7,054	7,940	7,388	7,855	15.9	6.3	15,243	13,070	16.6
Total Operating Expenses	3,233	3,187	3,689	3,215	3,351	3.7	4.2	6,566	6,118	7.3
As % Of Net Income	47.7	45.2	46.5	43.5	42.7			43.1	46.8	
Employee Expenses	2,110	2,067	2,177	2,145	2,174	3.0	1.3	4,319	3,899	10.7
As % Of Net Income	31.1	29.3	27.4	29.0	27.7			28.3	29.8	
Other Expenses	1,123	1,120	1,513	1,070	1,178	4.9	10.1	2,248	2,218	1.3
As % Of Net Income	16.6	15.9	19.1	14.5	15.0			14.7	17.0	
Operating Profit	3,546	3,867	4,251	4,173	4,504	27.0	7.9	8,677	6,953	24.8
As % Of Net Income	52.3	54.8	53.5	56.5	57.3			56.9	53.2	
Provisions	2,178	1,666	2,838	2,179	2,597	19.2	19.2	4,775	3,876	23.2
Prov for NPA	1,703	563	1,114	1,372	1,179	-30.8	-14.1	4,229	4,950	-14.6
PBT	1,368	2,201	1,413	1,994	1,908	39.5	-4.3	3,902	3,076	26.8
Total Tax	270	570	-20	670	660	144.4	-1.5	1,330	900	47.8
Adjusted PAT	1,098	1,631	1,433	1,324	1,248	13.7	-5.8	2,572	2,176	18.2
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	1,098	1,631	1,433	1,324	1,248	13.7	-5.8	2,572	2,176	18.2
Reported EPS	3.5	5.2	4.2	3.8	3.6	4.4	-5.8	16.8	15.5	8.3

Source: Company, Emkay Research

**NIM expansion aided by better yields ...**

Q2FY12 NIM at 3.16% was up 14bps qoq. Growth in NIM was aided by a) 54bps qoq improvement in yield on advances b) 117bps qoq increase in LDR and c) higher proportion of low-cost deposit franchise. NIM expansion during the quarter was also aided by mere 24bps qoq in cost of deposits against 54bps qoq increase in yield on advances

**... and strong deposit franchise**

United Bank of India stands at gain owing to its strong presence in relatively under-penetrated region of North-Eastern India. Through targeted branch addition particularly pan-India, CASA deposits for the bank has been on a rise. CASA ratio for the bank at 40% has improved by 600bps in past 8-quarters. Also, increasing proportion of core deposits (now at 81%) has ensured adequate check on cost..

In case of United Bank of India, the proportion of saving deposits / total deposits is relatively higher at 32%. While the management is yet to take any call on deregulation of interest rates on savings deposits, we expect any impact on margins will be compensated in form of higher yields. We expect NIM to cushion at 2.6-2.7%+ levels over FY12-13E.

**CASA Mix**

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Current Deposits	56	62	85	69	65	16.8	-5.8
Savings Deposits	218	232	232	241	247	13.1	2.4
CASA	274	294	317	310	312	13.8	0.6
Term deposits	416	437	461	461	470	13.0	2.1
Total Deposits	690	731	778	771	782	13.3	1.5
Demand/Total	39.7	40.2	40.8	40.2	39.9	18	-37

Source: Company, Emkay Research

**Loan growth remained broad based; power sector exposure at high 10.5%**

Loan growth during the quarter at 17.3% yoy (3.2% qoq) remained broad based. Traction was witnessed across – SME (+22% yoy), retail (+19% yoy) and large corporate (+14% yoy). Amongst retail, growth was witnessed in segments of home loan (up 21% yoy), auto loans (up 39% yoy) and loans against FD/NSC/LIC (up 25% yoy).

Power sector exposure stood at Rs57bn (10.5% of total loan portfolio). Of this, exposure to SEB stood at Rs8.45 (mere 1.6% of total loan portfolio) and is to the West Bengal and Rajasthan SEB. The management reiterated for stable asset quality on this exposure.

**Advance mix**

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
SME	68	74	82	78	83	21.6	6.5	15.3
Agriculture	46	49	57	56	60	30.5	7.2	11.1
Retail	65	69	78	82	78	19.4	-4.5	14.4
Others	283	315	318	310	322	13.7	3.7	59.2
<b>Total</b>	<b>463</b>	<b>507</b>	<b>535</b>	<b>526</b>	<b>543</b>	<b>17.3</b>	<b>3.2</b>	<b>100.0</b>
CD Ratio (%)	67.0	69.3	68.7	68.2	69.4	238	117	

Source: Company, Emkay Research

**Asset quality deterioration continues; PCR declines by sharp 500bps qoq...**

GNPA at Rs19bn were up 31% yoy (24% qoq). Slippages during the quarter came in significantly higher at Rs6.2bn (3.7% annualized). Of this, Rs3.2bn was due to slippages in SME and three-large corporate accounts. The bank has migrated to system based NPA recognition during the quarter and the management has guided for moderation in slippage rate in H2FY12. United Bank has made provision of Rs1.2bn towards NPA (credit cost at 0.9% annualized) and Rs330mn towards investment depreciation. With lower provisioning, NNPA rose 37% qoq and PCR declined by steep 520bps qoq to 65%.

**... recoveries and up-gradations to ensure check on asset quality in H2FY12**

While slippages came in higher, management has guided for improved recoveries and up-gradation in H2FY12. In Oct' 2011 itself, recoveries and upgrades amounted to Rs1.1bn or 8% of FY11 GNPA.

**Asset quality**

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPLs	14,601	14,853	13,558	15,353	19,081	30.7	24.3
Net NPLs	7,294	7,630	7,574	8,780	12,023	64.8	36.9
Gross NPLs (%)	3.1	2.9	2.5	2.9	3.5		
Net NPLs (%)	1.6	1.5	1.4	1.7	2.2		
Net NPLs/Net worth (%)	20.5	20.5	17.9	20.2	26.9		
Provision cover (%)	50.0	48.6	44.1	42.8	37.0		
Provision cover (incl tech w/off)	71.8	71.2	72.1	70.2	65.0		

Source: Company, Emkay Research

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Cumulative slippage	4,510	6,528	9,842	3,917	10,122
During the quarter slippage	2,036	2,018	3,314	3,917	6,205
%					
Cumulative slippage	1.0	1.3	1.8	0.7	1.9
During the quarter slippages	0.4	0.4	0.6	0.7	1.1

Source: Company, Emkay Research

**Valuations and view**

Net NPL/networth at 27% is now at a multi-quarter high. With Tier I CAR at 8.9%, we now expect growth rate to ease over FY11-13E. Also, while the management has hinted for sharp recoveries and up-gradations in H2FY12, we expect asset quality pressures to prevail. Accordingly, we have lowered our earnings estimates for FY12E/FY13E by 18%/21% by factoring in higher credit cost, relatively lower loan growth (16% CAGR over FY11-FY13E) and margin compression. With relatively lower return ratios and concerns on NPA we have now downgraded the stock to HOLD (ACCUMULATE earlier) and value it at 0.7x FY13 ABV of Rs104 to arrive at target price of Rs73.

**Key Financials****Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	13,912	21,693	24,615	29,138
Other income	5,588	6,370	7,378	7,675
Net income	19,500	28,064	31,993	36,813
Operating expenses	10,741	12,994	13,344	13,241
Pre provision profit	8,759	15,070	18,649	23,571
PPP excl treasury	10,563	17,054	20,149	25,071
Provisions	4,653	8,380	11,268	11,386
Profit before tax	4,105	6,690	7,381	12,186
Tax	882	1,450	2,214	3,656
Tax rate	21%	22%	30%	30%
Profit after tax	3,224	5,240	5,167	8,530

**Balance Sheet (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity	3,164	3,444	3,444	3,444
Reserves	30,365	38,773	41,740	47,184
Net worth	33,529	42,217	45,184	50,628
Deposits	681,803	778,448	875,672	1,024,418
Borrowings	49,217	71,740	84,409	98,123
Total liabilities	770,050	900,405	1,010,766	1,178,669
<b>Assets</b>				
Cash and bank	63,778	73,277	74,813	100,033
Investments	240,071	241,026	268,304	305,490
Customer assets	443,907	535,024	633,407	733,312
Others	22,294	29,514	34,243	39,834
Total assets	770,050	900,405	1,010,766	1,178,669

**Key Ratios (%)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.0	2.6	2.6	2.7
Non-ll/avg assets	0.8	0.8	0.8	0.7
Fee income/avg assets	0.2	0.2	0.2	0.2
Opex/avg assets	1.5	1.6	1.4	1.2
Provisions/avg assets	0.7	0.9	1.6	1.6
PBT/avg assets	0.5	0.7	0.7	1.0
Tax/avg assets	0.1	0.2	0.2	0.3
RoA	0.5	0.6	0.5	0.8
RoAE	10.4	13.8	11.8	17.8
GNPA (%)	3.5	2.8	3.6	3.4
NNPA (%)	1.8	1.0	1.6	1.1

**Valuations Table**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	3,224	5,240	5,167	8,530
Shares in issue (mn)	316	344	344	344
EPS (Rs)	10.2	15.2	15.0	24.8
PER (x)	7.2	4.8	4.9	2.9
FDEPS(Rs)	9.4	15.2	15.0	24.8
FDPER (x)	7.8	4.8	4.9	2.9
Book value (Rs)	91.7	103.5	112.1	127.9
P/BV (x)	0.8	0.7	0.7	0.6
Adj book value (Rs)	67.1	87.2	83.3	103.7
P/ABV (x)	1.1	0.8	0.9	0.7
P/PPP (x)	2.6	1.7	1.3	1.1
Dividend yield (%)	2.7	3.0	5.5	8.2

**Recommendation History: United Bank of India – UNTDB IN**

Date	Reports	Reco	CMP	Target
03/08/2011	<a href="#">United Bank of India Q1FY12 Result Update</a>	Accumulate	90	110
04/05/2011	<a href="#">United Bank of India Q4FY11 Result Update</a>	Accumulate	99	110
24/01/2011	<a href="#">United Bank of India Q3FY11 Result Update</a>	Buy	95	130
26/10/2010	<a href="#">United Bank of India Q2FY11 Result Update</a>	Hold	141	150

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
01/11/2011	<a href="#">Punjab National Bank Q2FY12 Result Update</a>	Accumulate	1,013	1,270
31/10/2011	<a href="#">Bank of Baroda Q2FY12 Result Update</a>	Accumulate	772	950
31/10/2011	<a href="#">Canara Bank Q2FY12 Result Update</a>	Hold	469	500
31/10/2011	<a href="#">Corporation Bank Q2FY12 Result Update</a>	Accumulate	427	520

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