

Union Bank of India

Refer to important disclosures at the end of this report

Heavy loss on account of pre-merger NPA provisioning alignment

CMP: Rs 33
as of (June 23, 2020)

TP: Rs 26 (▲)
12 months

Rating: SELL (■)

Upside: (20.7) %



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- Despite strong other income supported by treasury gains, Union Bank posted a massive loss of Rs25bn, owing to higher NPA provisions, including Rs25.1bn as NPA provisioning harmonization before the merger with Andhra/Corporation Bank.
- Headline GNPA improved 71bps qoq to 14.1%, mainly due to the moratorium and higher write-off. Nearly 24%/26% loans for standalone/merged bank were under moratorium as of March 31, which is not comparable with other banks. We believe that the bank's (merged) higher share of SME portfolio could pose asset quality risk due to Covid-19.
- We introduce merged financials and expect the bank to report negative RoA of -0.2% due to the merger and Covid-19-related pain, but expect to gradually improve to 0.2% by FY23, benefiting from a better margin profile of merging banks and lower LLP.
- We maintain a Sell rating on the stock with a revised TP of Rs26 (now based on 0.5x FY22E ABV of merged bank) and UW stance in sector EAP, mainly due to its relatively weak asset quality profile, subdued return ratios and merger overhang.

Growth moderated; NIM compressed: Loan growth was moderate at 6.1% yoy/2.4% qoq, as the higher growth in corporate loans (7% qoq) was offset by qoq de-growth in retail loans by 2.7%. Deposit growth of 1.2% qoq was disappointing amid expectation of healthy deposit growth in PSBs due to the flight to safety. NIM contracted by 25bps qoq to 2.2% due to interest reversals on NPAs and lower investments yields. The bank has optimistically guided for 6-8% loan growth, 7-9% deposits growth in FY21 and NIMs for merged entity at 2.4-2.5%. The bank has sanctioned Rs35bn out of total credit opportunity of Rs120bn under the SME guarantee scheme.

Headline NPA improves, pre-merger harmonization provision made: GNPA improved by 71bps qoq to 14.1%, mainly due to write-off and the standstill benefit extended on overdue loans to the tune of Rs25bn (0.8% of loans). The bank made harmonization provision of Rs25bn as per IRAC norms pre-merger due to which PCR improved to 64.7% from 56.9% qoq. Barring 5% statutory provision on loans under the standstill benefit, the bank has not made any Covid-19 contingent provision, which would call for higher LLP in FY21. We believe that the merged bank's higher share of SME portfolio could pose higher asset quality risk due to Covid-19 and thus, we build in higher LLP at 440bps in FY21E and 290bps in FY22E.

Outlook and valuations: We introduce merged financials and expect the bank to report negative RoA of -0.2% due to the merger and Covid-19-related pain, but to gradually improve to 0.2% by FY23, benefiting from a better margin profile of merging banks and lower LLP. We maintain a Sell rating on the stock with a revised TP of Rs26 (now based on 0.5x FY22E ABV of merged bank) and UW stance in sector EAP, mainly due to its relatively weak asset quality profile, subdued return ratios and merger overhang. Key risks to our call: Higher treasury gains given the bank's higher AFS portfolio, one-off gains from the stake sale in the insurance business and slower NPA formation than expected.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	146,889	166,975	370,256	380,852	393,414
Net profit	(29,474)	(28,979)	(17,548)	6,893	25,734
EPS (Rs)	(20.1)	(11.2)	(3.6)	1.1	4.0
ABV (Rs)	73.9	77.6	69.9	55.5	60.9
RoA (%)	(0.6)	(0.6)	(0.2)	0.1	0.2
RoE (%)	(12.5)	(10.4)	(3.9)	1.2	4.2
PE (x)	(1.6)	(2.9)	(9.2)	30.6	8.2
P/ABV	0.5	0.6	0.6	0.6	0.5

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	30.5
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(3.6)	1.1
Consensus	5.0	6.9
Mean Consensus TP (12M)	Rs 49	

Stock Details

Bloomberg Code	UNBK IN
Face Value (Rs)	10
Shares outstanding (mn)	6,402
52 Week H/L	87 / 23
M Cap (Rs bn/USD bn)	211 / 2.78
Daily Avg Volume (nos.)	5,817,267
Daily Avg Turnover (US\$ mn)	2.2

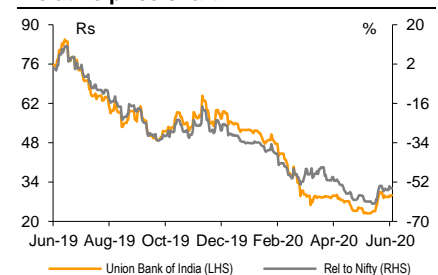
Shareholding Pattern Mar '20

Promoters	86.8%
FII	1.3%
DII	6.4%
Public and Others	5.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	44	20	(44)	(56)
Rel. to Nifty	26	(9)	(33)	(50)

Relative price chart



Source: Bloomberg

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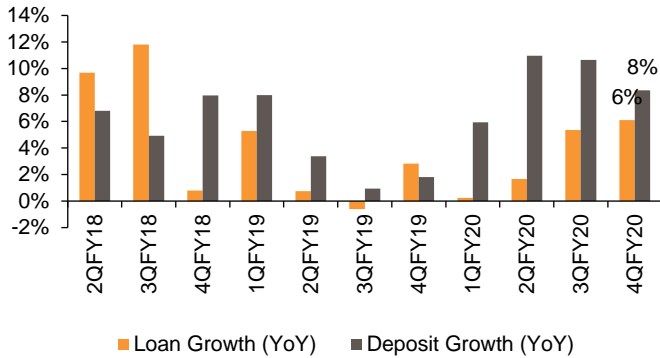
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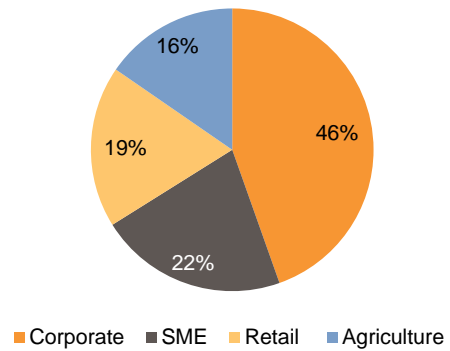
Story in Charts

Exhibit 1: Growth in Corporate loans qoq was set off by de-growth in retail loans qoq



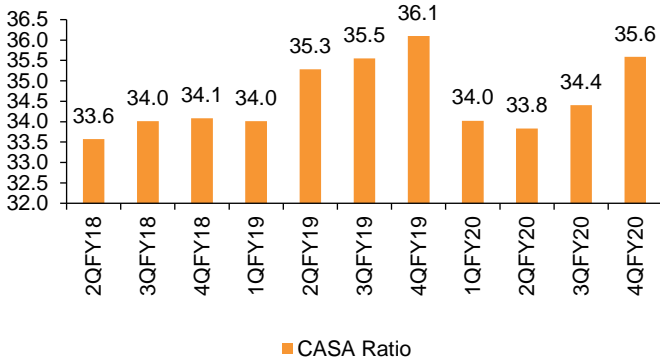
Source: Company, Emkay Research

Exhibit 2: Corporate share increased by 206bps qoq to 46%



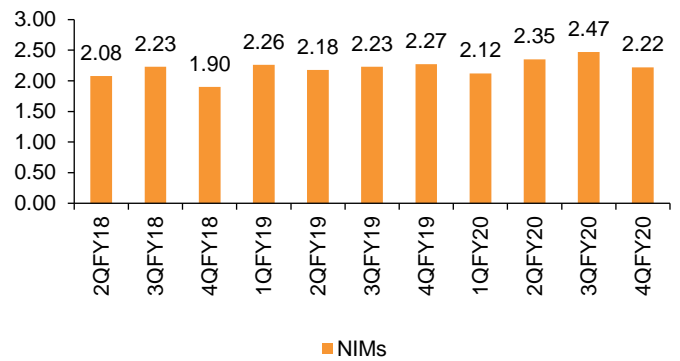
Source: Company, Emkay Research

Exhibit 3: CASA share improved by 118bps qoq to 35.6%



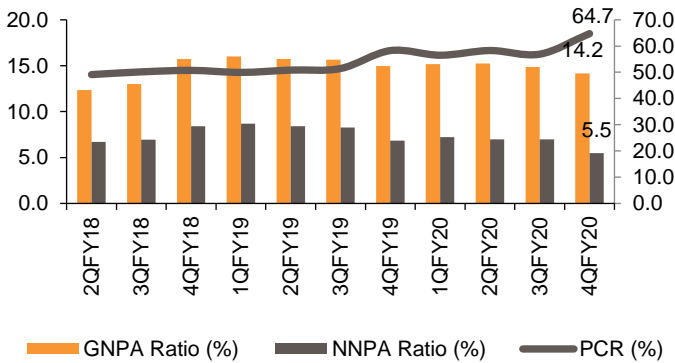
Source: Company, Emkay Research

Exhibit 4: NIM contracted due to interest reversals on NPA and lower investment yields



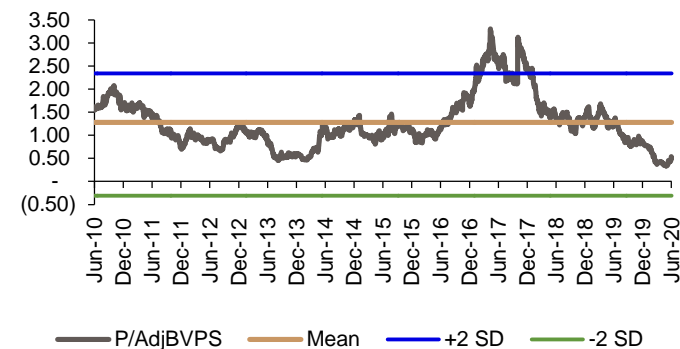
Source: Company, Emkay Research

Exhibit 5: GNPA improved by 71bps qoq due to write off and standstill benefit on loans to the tune of Rs25bn(0.8% of loans)



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 0.6x – 1 year forward ABV



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	48,957	42,696	43,220	15%	13%	Higher treasury gain led to a beat
PPOP	26,526	23,944	23,130	11%	15%	Higher net income led to a beat
PAT	-25,034	1,674	640	1596%	-4012%	Covid related provisioning led to a miss

Source: Company, Emkay Research

Exhibit 8: Quarterly Summary

Rs (mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	83,495	88,976	94,134	96,307	92,894	11	-4	372,311	759,859	104
Interest Exp	57,480	63,794	65,075	64,961	64,113	12	-1	257,944	509,389	97
Net Interest Income	26,015	25,182	29,059	31,346	28,781	11	-8	114,368	250,469	119
Global NIMs (reported)	2.27	2.12	2.35	2.47	2.22	-5bps	-25bps	2.41	3.41	101bps
Non-interest Income	12,715	9,895	11,432	11,105	20,176	59	82	52,608	119,787	128
Operating Expenses	21,428	16,213	18,084	18,436	22,431	5	22	75,164	167,356	123
Pre Provisioning Profit	17,302	18,864	22,406	24,014	26,526	53	10	91,811	202,901	121
Provision & Contingencies	57,662	15,193	38,588	18,190	60,119	4	231	132,090	226,298	71
PBT	-40,360	3,671	-16,181	5,824	-33,592	-17	NM	-40,279	-23,397	NM
Income Tax Expense (Gain)	-6,667	1,426	-4,245	79	-8,559	NM	NM	-11,300	-5,849	NM
Net Profit/(Loss)	-33,692	2,244	-11,936	5,746	-25,034	-26	NM	-28,979	-17,548	NM
Gross NPA (%)	14.98	15.18	15.24	14.86	14.15	-83bps	-71bps	14.15	15.99	183bps
Net NPA (%)	6.85	7.23	6.98	6.99	5.49	-136bps	-150bps	5.49	6.08	58bps
Deposits (Rs in bn)	4,159	4,300	4,429	4,451	4,507	8	1	4,507	9,196	104
Net Advances (Rs in bn)	2,969	2,938	2,979	3,076	3,150	6	2	3,150	6,112	94

Source: Company, Emkay Research

Exhibit 9: Earnings Estimates

Y/E Mar (Rs mn)	FY21E Introduced	FY22E Introduced	FY23E Introduced
Net income	370,256	380,852	393,414
PPOP	202,901	200,363	195,986
PAT	-17,548	6,893	25,734
EPS (Rs)	-3.6	1.1	4.0
BV (Rs)	91.9	93.0	96.5

Source: Company, Emkay Research

Exhibit 10: Key Assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	6.1	94.0	5.9	7.3
Deposit Growth %	8.4	104.1	4.9	7.1
NIM %	2.4	3.4	2.6	2.7
GNPA %	14.2	16.0	15.7	14.9
Credit Cost %	3.7	4.4	2.9	2.2

Source: Company, Emkay Research

Exhibit 11: Key Ratios and Trends

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Loans (Rs bn)	2,888	3,186	3,185	3,175	3,253	3,214	3,271	3,361	3,469
<i>growth (YoY)</i>	0.8	14.4	9.5	8.1	12.7	0.9	2.7	5.8	6.6
<i>growth (QoQ)</i>	-1.7	10.3	0.0	-0.3	2.5	-1.2	1.8	2.8	3.2
Liability Profile/CAR %									
Deposits (Rs bn)	4,085	4,059	3,991	4,023	4,159	4,300	4,429	4,451	4,507
<i>growth (YoY)</i>	8.0	8.0	3.4	0.9	1.8	6.0	11.0	10.6	8.4
<i>growth (QoQ)</i>	2.5	(0.6)	(1.7)	0.8	3.4	3.4	3.0	0.5	1.3
CASA %	34.1	34.0	35.3	35.5	36.1	34.0	33.8	34.4	35.6
CA %	6.1	5.6	5.6	5.9	6.4	5.4	5.5	5.8	5.9
SA %	28.0	28.5	29.7	29.6	29.7	28.6	28.3	28.6	29.7
Global NIM %	1.9	2.3	2.2	2.2	2.3	2.1	2.4	2.5	2.2
CAR (%)	11.5	11.5	11.6	11.4	11.8	11.4	15.1	14.7	12.8
Tier I (%)	9.1	9.0	9.0	9.0	9.5	9.3	12.8	12.7	10.8
Branches	4,297	4,298	4,299	4,292	4,288	4,288	4,285	4,282	-
Asset Quality									
GNPA (%)	15.7	16.0	15.7	15.7	15.0	15.2	15.2	14.9	14.2
NNPA (%)	8.4	8.7	8.4	8.3	6.9	7.2	7.0	7.0	5.5
PCR (%)	50.7	50.0	50.8	51.4	58.3	56.5	58.3	56.9	64.7
Slippages %	14.0	6.7	3.7	4.1	4.5	4.2	5.8	7.0	3.4
ROE Decomposition %									
NII	1.8	2.2	2.1	2.1	2.1	2.0	2.2	2.4	2.1
Other Income	1.1	0.8	0.7	0.8	0.8	0.5	0.6	0.7	0.8
Treasury	0.1	0.2	0.1	0.1	0.2	0.3	0.3	0.1	0.7
Opex	1.5	1.4	1.3	1.5	1.8	1.3	1.4	1.4	1.7
PPOP	1.6	1.7	1.5	1.5	1.4	1.5	1.7	1.8	2.0
Provisioning Cost	4.7	1.8	1.4	1.4	4.8	1.2	3.0	1.4	4.5
PBT	-3.1	-0.1	0.1	0.1	-3.3	0.3	-1.3	0.4	-2.5
Tax	-1.0	-0.2	0.0	0.0	-0.6	0.1	-0.3	0.0	-0.6
ROA	(2.1)	0.1	0.1	0.1	(2.8)	0.2	(0.9)	0.4	(1.9)
ROE	-42.8	2.1	2.2	2.4	-51.8	3.4	-14.9	6.1	-28.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	102,149	114,368	250,469	261,475	282,177
Other income	44,739	52,608	119,787	119,377	111,238
Fee income	6,001	25,610	48,659	52,552	57,807
Net income	146,889	166,975	370,256	380,852	393,414
Operating expenses	71,676	75,164	167,356	180,489	197,428
Pre provision profit	75,212	91,811	202,901	200,363	195,986
PPP excl treasury	69,475	77,181	177,901	174,113	174,986
Provisions	114,479	132,090	226,298	191,172	161,674
Profit before tax	(39,267)	(40,279)	(23,397)	9,191	34,312
Tax	(9,792)	(11,300)	(5,849)	2,298	8,578
Tax rate	25	28	25	25	25
Profit after tax	(29,474)	(28,979)	(17,548)	6,893	25,734

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	17,630	34,228	64,068	64,068	64,068
Reserves	247,240	303,628	565,552	570,397	590,982
Net worth	264,870	337,856	629,620	634,465	655,050
Deposits	4,159,153	4,506,685	9,196,121	9,645,870	10,327,732
Borrowings	295,738	387,963	465,555	419,000	398,050
Total liabilities	4,940,388	5,506,832	10,675,724	11,155,678	11,846,528
Cash and bank	207,965	201,183	211,242	221,804	232,894
Investments	1,260,466	1,524,139	2,893,625	3,026,388	3,205,901
Loans	2,969,322	3,150,494	6,111,664	6,470,223	6,943,094
Others	242,518	233,512	603,482	604,361	614,240
Total assets	4,940,388	5,506,832	10,675,724	11,155,678	11,846,528

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	2.3	2.4	3.4	2.6	2.7
Non-ll/avg assets	0.9	1.0	1.5	1.1	1.0
Fee income/avg assets	0.1	0.5	0.6	0.5	0.5
Opex/avg assets	1.5	1.4	2.1	1.7	1.7
Provisions/avg assets	2.3	2.5	2.8	1.8	1.4
PBT/avg assets	(0.8)	(0.8)	(0.3)	0.1	0.3
Tax/avg assets	(0.2)	(0.2)	(0.1)	0.0	0.1
RoA	(0.6)	(0.6)	(0.2)	0.1	0.2
RoAE	(12.5)	(10.4)	(3.9)	1.2	4.2
GNPA (%)	15.0	14.2	16.0	15.7	14.9
NNPA (%)	6.8	5.5	6.1	5.6	5.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	(20.1)	(11.2)	(3.6)	1.1	4.0
BVPS	165.5	121.7	119.8	93.0	96.5
ABVPS	73.9	77.6	69.9	55.5	60.9
DPS	0.0	0.0	0.0	0.0	0.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	(1.6)	(2.9)	(9.2)	30.6	8.2
P/BV	0.4	0.4	0.5	0.6	0.5
P/ABV	0.5	0.6	0.6	0.6	0.5
P/PPOP	0.8	1.2	1.0	1.1	1.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	1.5

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	9.8	12.0	119.0	4.4	7.9
PPOP	(0.2)	22.1	121.0	(1.3)	(2.2)
PAT	(43.8)	(1.7)	(39.4)	(139.3)	273.3
Loans	2.8	6.1	94.0	5.9	7.3

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	26,015	25,182	29,059	31,346	28,781
NIM(%)	2.3	2.1	2.4	2.5	2.2
PPOP	17,302	18,864	22,406	24,014	26,526
PAT	(33,692)	2,244	(11,936)	5,746	(25,034)
EPS (Rs)	(19.11)	1.27	(6.77)	1.68	(7.31)

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	74.3	74.3	74.3	86.8	86.8
FII	3.2	2.9	2.8	1.4	1.3
DII	13.2	13.1	13.2	6.4	6.4
Public and Others	9.4	9.7	9.6	5.4	5.6

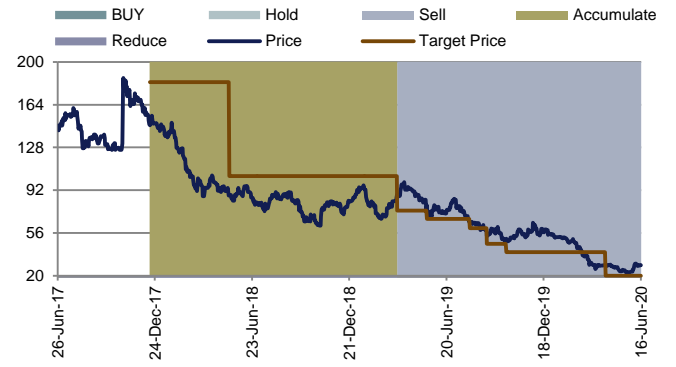
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Apr-20	29	20	12m	Sell	Anand Dama
10-Feb-20	51	40	12m	Sell	Anand Dama
14-Nov-19	52	40	12m	Sell	Anand Dama
9-Oct-19	51	40	12m	Sell	Anand Dama
3-Sep-19	54	47	12m	Sell	Anand Dama
2-Aug-19	65	60	12m	Sell	Anand Dama
14-May-19	79	68	12m	Sell	Anand Dama
20-Mar-19	88	75	12m	Sell	Ravikant Bhat
21-May-18	87	104	12m	Accumulate	Ravikant Bhat
11-May-18	88	104	12m	Accumulate	Ravikant Bhat
24-Jan-18	149	183	12m	Accumulate	Ravikant Bhat
14-Dec-17	147	183	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	19.75	19.63	-0.6%	-12	100.00
Axis Bank	1.79	1.94	8%	15	9.82
AU Small Finance Bank	0.06	0.04	-38%	-2	0.18
Bandhan Bank	0.18	0.18	1%	0	0.92
Bank of Baroda	0.11	0.00	-100%	-11	0.00
Canara Bank	0.06	0.00	-100%	-6	0.00
City Union Bank	0.16	0.16	1%	0	0.83
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.20	0.20	2%	0	1.02
HDFC Bank	7.80	8.12	4%	32	41.10
ICICI Bank	4.26	4.45	4%	18	22.52
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.55	0.63	13%	7	3.18
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.01	2.52	-16%	-49	12.77
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.14	0.10	-24%	-3	0.52
State Bank of India	1.28	1.29	1%	2	6.54
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.12	NA	12	0.60

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

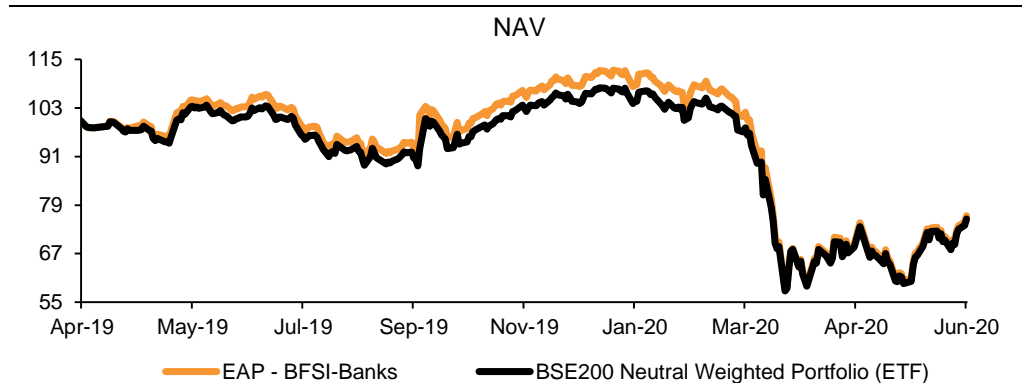
Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Sep-19	24-Dec-19	24-Mar-20	22-May-20	23-Jun-20
EAP - BFSI-Banks	100.0	101.3	111.7	58.6	60.3	76.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.1	107.6	58.4	59.6	75.6

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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