

11 May 2024

Union Bank of India

Sturdy credit growth, 1% RoA sustainable; retaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.166

Share Price: Rs.142

Stable margins, strong non-interest income and modest provisions led to Union Bank's decent profitability, RoA coming at 0.97%. Asset quality and PCR improved. We expect modest slippages ahead as most of the stress has been recognised. With stress from the legacy book recognised, the focus shifts to profitability. We expect the bank to deliver a sustainable ~1% RoA in the medium term. We retain our positive view on it with a 12-mth TP of Rs166, 1x P/BV on the FY26e book.

Headline asset quality stable. GNPA/NNPA declined 7bps/5bps sequentially, driven by higher recoveries and write-offs. The slippage run rate was 1.5%, within the guided-to range. Higher slippages in agri and MSME were due to seasonality, which contributed to higher slippages overall. The standard restructured book was 1.5% of loans (down 10bps q/q). With most of the stress already delinquent, and a low stress pipeline, modest slippages are expected ahead.

Credit growth to be near the system rate. The loan book was Rs8.7trn (up 14.3% y/y), driven by secular growth across segments. With a cleaner balance sheet, adequate capital and a strong deposit base, we expect credit growth to be in line with peers. We model ~13% growth through FY25/26.

Stable margins, lower credit cost to drive RoA. Decent business growth combined with stable margins and favourable credit cost would lead to strong profitability in the medium term. We estimate a 1%+ RoA through FY25/26.

Valuation. Our Rs166 TP stems from the two-stage DDM model. This implies a ~1x P/BV multiple on the FY26e book. **Risks:** Lumpy slippages in the corporate book; less-than-expected credit growth.

Key financials (YE Mar) (Rs bn)	FY22	FY23	FY24	FY25e	FY26e
Net interest income	278	328	366	413	468
Pre-provisioning profit (Rs bn)	219	255	282	313	349
PAT (Rs bn)	52	84	136	165	175
EPS (Rs)	7.7	12.3	17.9	21.6	22.9
NIM (%)	2.7	2.9	3.0	3.1	3.1
Cost-Income (%)	45.7	46.3	46.4	46.4	46.3
RoE (%)	7.7	11.3	15.6	15.9	14.9
RoA (%)	0.5	0.7	1.0	1.1	1.1
Advances growth (%)	11.8	15.3	14.3	13.0	13.0
GNPA (%)	11.1	7.5	4.8	3.9	3.0
CRAR (%)	14.5	16.0	18.3	19.0	19.0
P / E (x)	18.5	11.5	7.9	6.6	6.2
P / BV (x)	1.4	1.2	1.1	1.0	0.9
P / ABV (x)	1.8	1.4	1.2	1.0	0.9

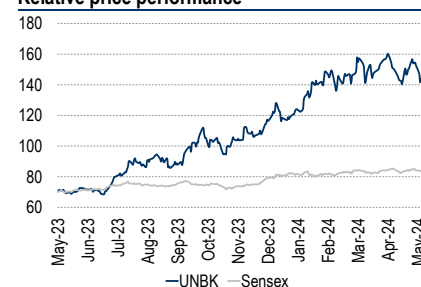
Source: Company, Anand Rathi Research

Key data	UNBK IN
52-week high / low	Rs.163 / 68
Sensex / Nifty	72664 / 22055
3-m average volume	\$44.2m
Market cap	Rs.1,084bn / \$12,981.9m
Shares outstanding	7634m

Shareholding pattern (%)	Mar'24	Dec'23	Sep'23
Promoters	77.0	77.0	77.0
- of which, Pledged	-	-	-
Free float	23.0	23.0	23.0
- Foreign institutions	6.8	4.0	2.9
- Domestic institutions	12.3	12.3	12.7
- Public	4.0	6.8	7.4

Estimates revision (%)	FY25e	FY26e
Net interest income	(3.0)	(5.4)
Pre-provisioning profit	(7.3)	(10.2)
PAT	(6.3)	(13.7)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net interest income	278	328	366	413	468
<i>NII growth (%)</i>	12.5	17.9	11.6	13.0	13.3
Non-interest income	125	146	161	171	182
Income	403	474	527	585	651
<i>Income growth (%)</i>	11.9	17.6	11.1	11.0	11.3
Operating expenses	184	219	244	271	301
PPoP	219	255	282	313	349
<i>PPoP growth (%)</i>	13.6	16.4	10.8	11.0	11.5
Provisions	133	133	68	93	115
PBT	86	121	214	220	234
Tax	33	37	78	56	59
PAT	52	84	136	165	175
<i>PAT growth (%)</i>	80	61	62	21	6
EPS (Rs / sh)	7.7	12.3	17.9	21.6	22.9
DPS (Rs / sh)	1.9	3.0	3.6	4.3	4.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	68	68	76	76	76
Reserves & surplus	637	715	893	1,025	1,165
Deposits	10,324	11,177	12,215	13,559	15,050
Borrowings	512	431	269	283	297
Other Liabilities & Prov.	334	416	465	449	451
Total liabilities	11,876	12,808	13,920	15,393	17,040
Advances	6,610	7,618	8,708	9,840	11,119
Investments	3,485	3,393	3,379	3,548	3,725
Cash & bank balance	1,195	1,122	1,193	1,336	1,497
Fixed & other assets	586	675	640	669	700
Total assets	11,876	12,808	13,920	15,393	17,040
No. of shares (m)	6,835	6,835	7,634	7,634	7,634
<i>Deposits growth (%)</i>	11.8	8.3	9.3	11.0	11.0
<i>Advances growth (%)</i>	11.8	15.3	14.3	13.0	13.0

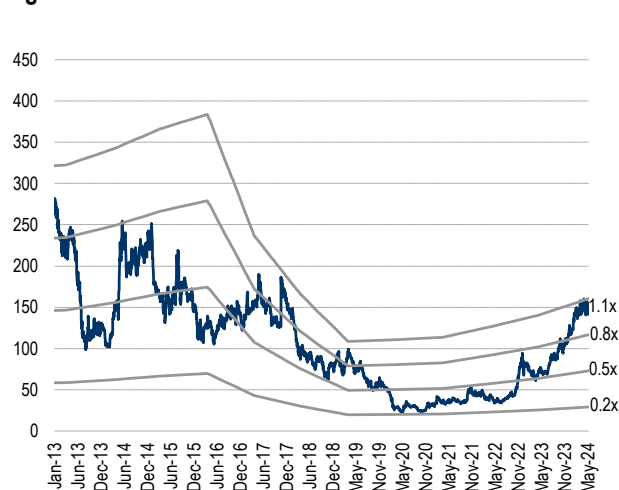
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
NIM	2.7	2.9	3.0	3.1	3.1
Other inc. / total inc.	31.1	30.9	30.5	29.3	28.0
Cost-income	45.7	46.3	46.4	46.4	46.3
DPS (Rs)	1.9	3.0	3.6	4.3	4.6
Credit-deposit	64.0	68.2	71.3	72.6	73.9
Investment-deposit	33.8	30.4	27.7	26.2	24.8
Gross NPA	11.1	7.5	4.8	3.9	3.0
Net NPA	3.7	1.7	1.0	0.8	0.6
Provision coverage	69.5	78.8	79.1	80.0	80.0
BV (₹)	103.3	114.6	127.0	144.3	162.7
Adj. BV (₹)	78.4	101.4	118.8	137.2	156.6
CRAR (%)	14.5	16.0	18.3	19.0	19.0
- Tier 1	12.2	13.9	16.3	17.2	17.3
RoE	7.7	11.3	15.6	15.9	14.9
RoA	0.5	0.7	1.0	1.1	1.1

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs bn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Interest income	209	220	235	246	254	264
Interest expense	123	138	146	155	162	169
NII	86	83	88	91	92	94
<i>Y/Y growth</i>	20.3	21.9	16.6	9.9	6.3	14.4
Non-interest income	33	53	39	37	38	47
Total income	119	135	127	128	129	141
<i>Y/Y growth</i>	22.7	35.0	22.5	10.7	8.8	4.6
Operating expenses	53	67	56	56	57	76
Of which, staff cost	28	41	32	31	33	48
PPoP	66	68	72	72	73	65
<i>Y/Y growth</i>	29.8	23.6	31.8	9.8	9.9	-4.3
Total provisions	30	29	20	18	17	13
PBT	36	39	52	55	55	53
Tax	13	11	19	19	19	20
PAT	22	28	32	35	36	33
<i>Y/Y growth</i>	106.8	93.3	107.7	90.0	59.9	19.0

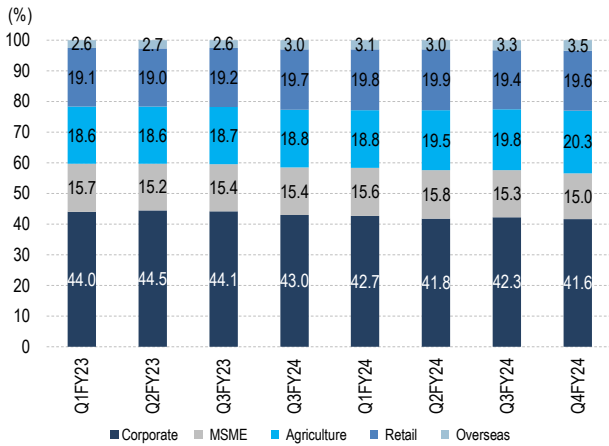
Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs bn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Equity capital	68	68	68	74	74	76
Reserves & Surplus	695	715	745	825	861	893
Deposits	10,650	11,177	11,281	11,376	11,725	12,215
Borrowings	576	431	315	525	374	269
Other liabilities	377	416	451	344	464	465
Liabilities	12,367	12,808	12,861	13,144	13,498	13,920
<i>Deposits y/y growth</i>	13.6	8.3	13.6	9.0	10.1	9.3
<i>Deposits q/q growth</i>	2.1	4.9	0.9	0.8	3.1	4.2
Cash and cash balances	859	1,122	1,081	1,096	889	1,193
Advances	7,564	7,618	7,705	8,036	8,621	8,708
Investments	3,352	3,393	3,431	3,423	3,354	3,379
Other assets	591	675	645	588	634	640
Assets	12,047	12,367	12,808	12,861	13,144	13,498
<i>Advances y/y growth</i>	22.6	15.3	13.9	10.5	14.0	14.3
<i>Advances q/q growth</i>	4.0	0.7	1.1	4.3	7.3	1.0

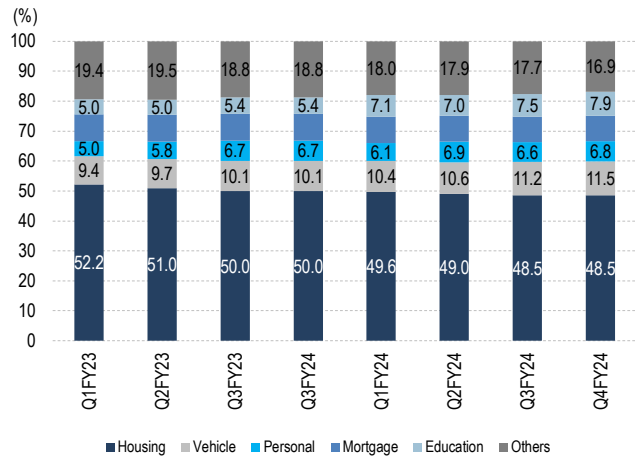
Source: Company, Anand Rathi Research

Fig 9 – Loan break-up (%)



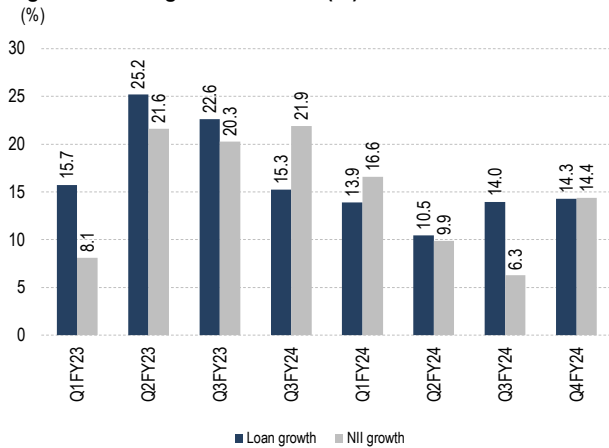
Source: Company, Anand Rathi Research

Fig 10 – Retail portfolio break-up (%)



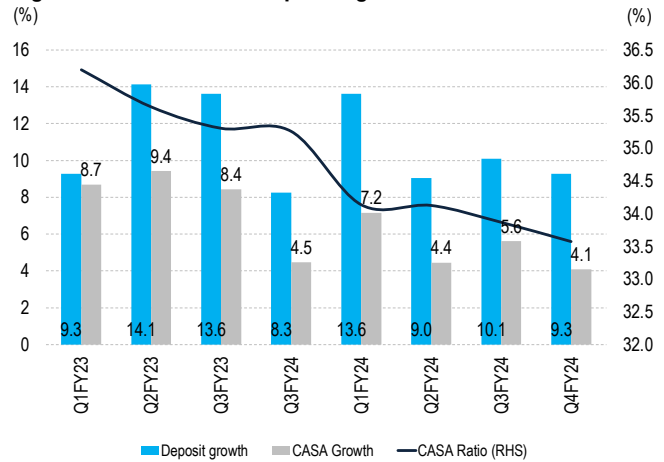
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM (%)



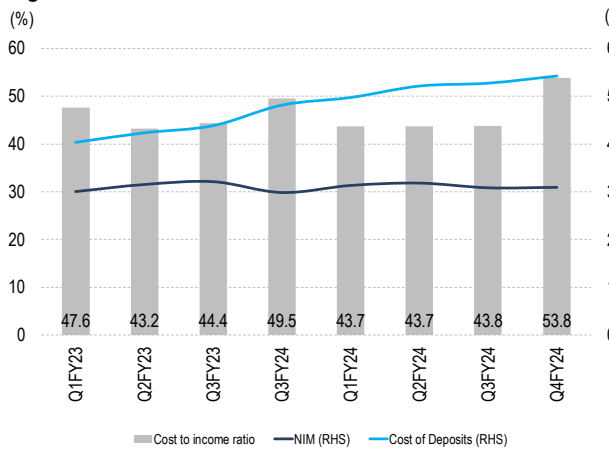
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposits growth



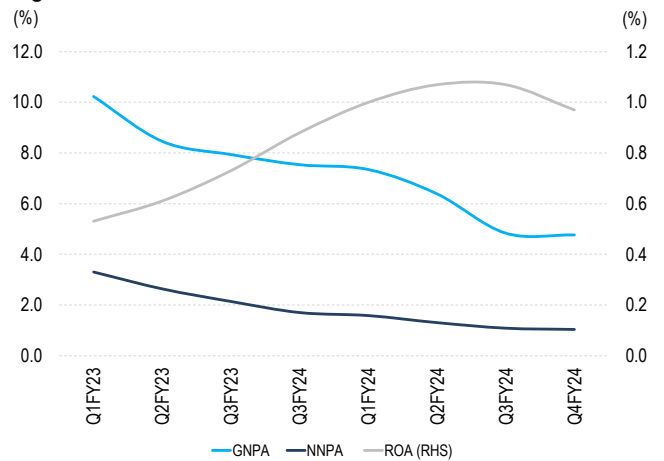
Source: Company, Anand Rathi Research

Fig 13 – C/I vs. NIM vs. Cost of funds



Source: Company, Anand Rathi Research

Fig 14 – GNPA, NNPA, RoA



Source: Company, Anand Rathi Research

Valuation

Our target price of Rs166 is based on the two-stage DDM model. This implies a ~1x P/BV multiple on the FY26e book.

Fig 15 – du Pont analysis

(%)	FY22	FY23	FY24	FY25e	FY26e
Interest Income / Assets	6.0	6.5	7.5	7.6	7.7
Interest Expense / Assets	3.6	3.9	4.7	4.8	4.8
Net interest income / Assets	2.5	2.7	2.7	2.8	2.9
Non-interest income / Assets	1.1	1.2	1.2	1.2	1.1
Net revenues / Assets	3.6	3.8	3.9	4.0	4.0
Operating expense / Assets	1.6	1.8	1.8	1.9	1.9
PPoP / Assets	1.9	2.1	2.1	2.1	2.2
Provision / Assets	1.2	1.1	0.5	0.6	0.7
Taxes / Assets	0.3	0.3	0.6	0.4	0.4
RoA	0.5	0.7	1.0	1.1	1.1
RoAE	7.7	11.3	15.6	15.9	14.9

Source: Company, Anand Rathi Research

Fig 16 – Estimates revision

(Rs bn)	FY25e			FY26e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	413	426	(3.0)	468	495	(5.4)
Pre-provisioning profit	313	338	(7.3)	349	389	(10.2)
PAT	165	176	(6.3)	175	203	(13.7)

Source: Anand Rathi Research

Risks

- Lumpy slippages from the corporate book. Though unexpected, these would mar our forecasts.
- Less-than-expected credit growth could eat into our estimates.

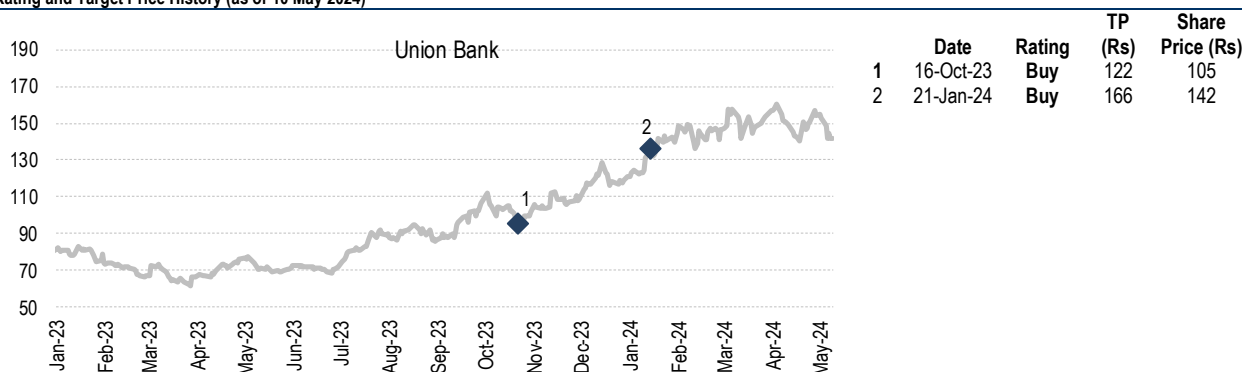
Appendix

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