14 May 2024

Update | Sector: Financials

Union Bank of India

BSE SENSEX	S&P CNX
73,105	22,218

Stock Info

Bloomberg	UNBK IN
Equity Shares (m)	7634
M.Cap.(INRb)/(USDb)	1020.2 / 12.2
52-Week Range (INR)	163 / 68
1, 6, 12 Rel. Per (%)	-9/5/66
12M Avg Val (INR M)	2728
Free float (%)	25.2

Financials Snapshot (INR b)

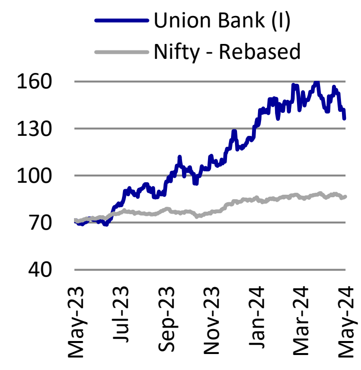
Y/E March	FY24	FY25E	FY26E
NII	365.7	386.5	429.5
OP	282.1	299.4	335.6
NP	136.5	158.6	180.5
NIM (%)	2.9	2.8	2.8
EPS (INR)	18.9	20.8	23.7
EPS Gr. (%)	52.9	10.1	13.8
BV/Sh. (INR)	123	139	159
ABV/Sh. (INR)	112	130	149
RoE (%)	16.7	16.3	16.3
RoA (%)	1.0	1.1	1.1
Valuations			
P/E(X)	7.5	6.8	6.0
P/BV (X)	1.2	1.0	0.9
P/ABV (X)	1.3	1.1	1.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	74.8	77.0	83.5
DII	12.6	12.3	8.3
FII	6.8	4.0	1.7
Others	5.9	6.8	6.6

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR134 TP: INR165 (+23%) Buy

Business growth on track; RoA to sustain at >1%

Asset quality outlook remains positive

We attended the analyst meet hosted by the entire top management team of Union Bank (UNBK). The management emphasized the bank's efforts in delivering profitable growth while continually making investments in the business and enhancing the technological capabilities of the bank. Management has conservatively guided FY25E NIMs of 2.8-3.0%, while RoA will be healthy at >1%. Following are the key takeaways from the meet:

Loan growth to remain healthy at 10-12%

UNBK is experiencing robust loan growth, driven by sustained momentum in Retail, Agriculture, MSME, Corporate, and Overseas lending segments. Additionally, there is a notable increase in demand for education loans. The bank anticipates a credit growth of ~10-12% in FY25, supported by strong credit demand. Presently, the bank has a healthy corporate pipeline of INR300b under discussion, along with around INR400b already sanctioned and prepared for disbursement. The bank foresees its deposit base growing healthily at a rate of 9-11%, bolstered by retail deposits via CASA and retail TDs. With a current CD ratio of 71%, the bank has mechanisms in place to further boost loan growth, aiming for a CD ratio within the range of 75-77%. Moreover, the bank holds excess SLR reserves amounting to INR700b, which can be utilized to enhance credit availability.

Margin outlook steady; NIM to be at 2.8-3.0% on a conservative basis

Although management has taken a cautious stance regarding NIM guidance, the bank possesses various mechanisms to optimize its margins. The bank forecasts margins in the range of approximately 2.8-3.0%. Despite a repo rate increase of 250bp, the bank has implemented only ~155bp of this increase, retaining flexibility to utilize the remainder when necessary. Additionally, the bank aims for a dummy interest of ~INR30b, which could contribute positively to margins in the future. Combined with the potential for further enhancement in the CD ratio, these factors could provide additional support to margins in FY25.

Limited impact from the RBI's draft circular on project finance

UNBK maintains a limited exposure to project finance loans. Out of its total corporate exposure of INR4.07t, only 28% is attributed to project loans, with 68% of this portion linked to completed projects. Consequently, only 32% of project loans are subject to provisioning requirements, leading the bank to anticipate minimal impact. Nevertheless, the bank remains in communication with the regulator to assess feedback and ascertain the potential provisioning requirement. The bank plans to transfer any impact to the borrowers and will vigilantly monitor corporate developments.

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Asset quality robust; recoveries to maintain a healthy run-rate

UNBK's asset quality demonstrates ongoing enhancement, characterized by a consistent decline in NPA ratios. The bank has effectively contained slippages at 50% of total recoveries. For FY24, it achieved total recoveries amounting to INR185b and anticipates a similar figure of ~INR160b in FY25. With a total NPA pool of INR1.23t, ~INR800b is classified as TWO accounts, wherein the bank observes a 7% increase in recoveries. Currently, the bank is engaged in discussions regarding 11 A/Cs with the NARCL, aiming to recover INR20 billion in FY25. Encouragingly, the bank foresees favorable recoveries from ARCs, given the granular and staggered nature of recoveries witnessed in FY24. Maintaining confidence, the bank expects to sustain credit costs at their current level, thereby likely remaining below 1%.

Strong focus on profitability with UNBK being the fourth-largest PSU bank

UNBK has consistently demonstrated strong profitability, securing its position as the fourth-largest PSU in terms of profitability. With one of the lowest C/I ratios in the industry, UNBK sees potential for further improvement in operational expenditure by outsourcing certain business functions. Having already met its FY24 targets for RoA and ROE at 1% and 17%, respectively, UNBK aims to sustain a RoA of over 1% in FY25. To achieve this, the bank has implemented various initiatives focused on controlling credit costs, enhancing the CASA ratio, and maintaining robust margins.

Other highlights

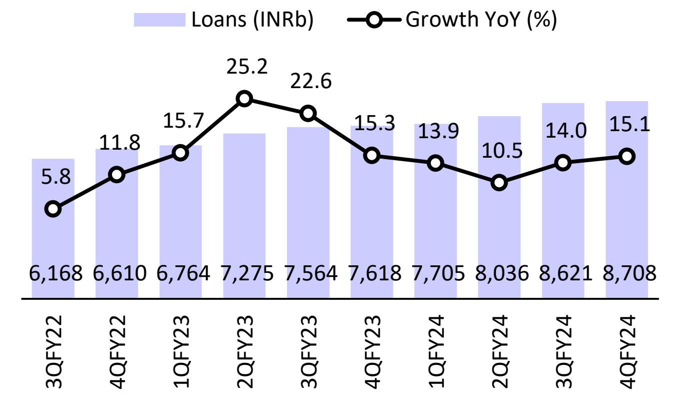
- UNBK anticipates favorable conditions with a good monsoon, supportive Fed policies, and expected ease in liquidity, which should contribute to sufficient trading income.
- The bank prioritizes maintaining its profit level without compromising its revenue. Despite initially forecasting lower guidance, the bank has observed better-than-expected growth.
- Management is confident that deposit growth will not hinder loan growth.
- Deposit growth was stronger in the first half of the year, while credit growth remained robust in the second half.
- The bank does not maintain floating provisions and currently has standard asset provisions.
- UNBK plans to transition to lower tax rates of 25-27%, which were previously inflated due to the reversal of DTAs.
- The transition of the mobile banking platform is scheduled for the beginning of the next financial year.

Valuation and view

UNBK has been reporting a healthy performance, with earnings driven by healthy revenue, loan growth, and controlled provisions. Fresh slippages have been under control which, coupled with healthy recoveries and upgrades, have resulted in an improvement in asset quality ratios. Further, a low SMA book and controlled restructuring provide a better outlook on asset quality. Loan growth has been trending well and has been broad-based, with its focus likely to remain on further credit growth improvement. We estimate loans to grow at ~12% over FY24-26, with RoA/RoE at 1.1%/16% by FY26. **We reiterate our BUY rating with a revised TP of INR165 (premised on 1x FY26E ABV).**

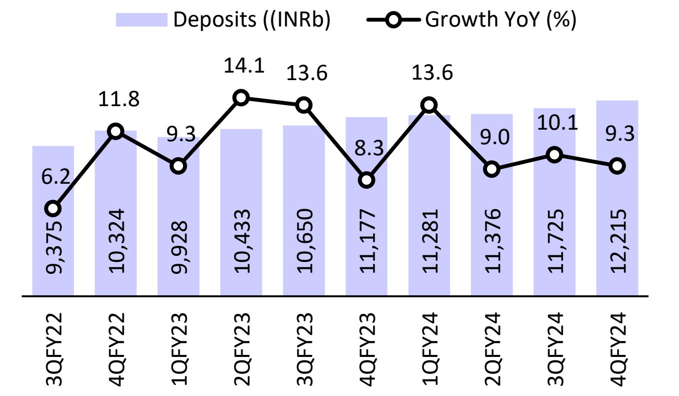
Story in charts

Exhibit 1: Loan book grew 14.3% YoY (1% QoQ) to INR 8.7t



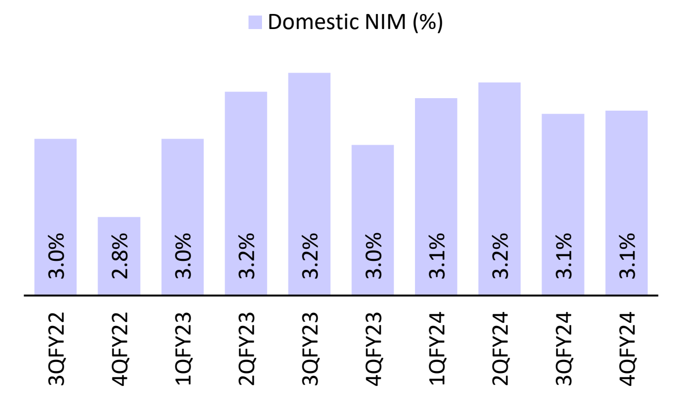
Source: MOFSL, Company

Exhibit 2: Deposits grew 9.3% YoY to INR12t



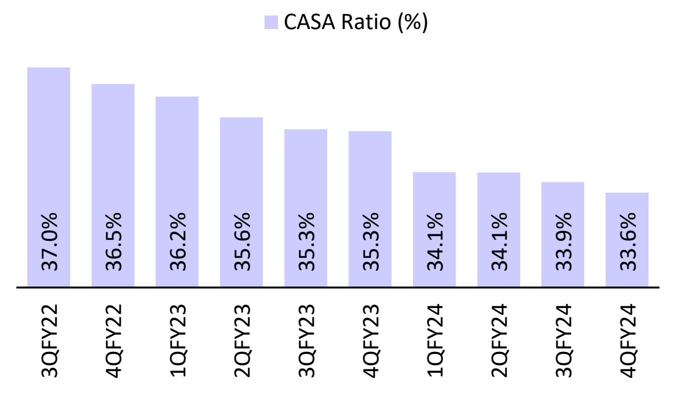
Source: MOFSL, Company

Exhibit 3: NIMs remained broadly stable at 3.09%



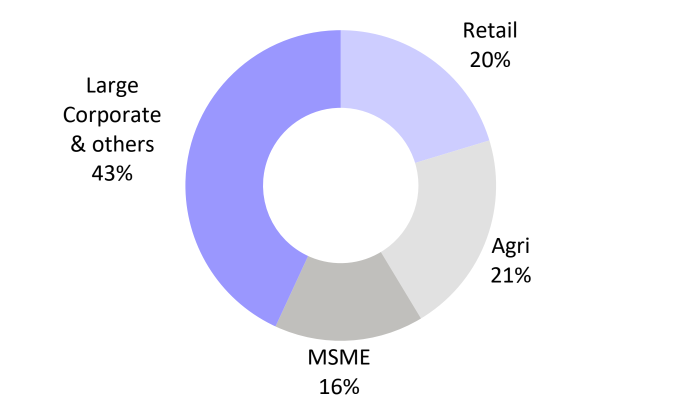
Source: MOFSL, Company

Exhibit 4: CASA ratio moderated slightly to 34.2% in 4QFY24



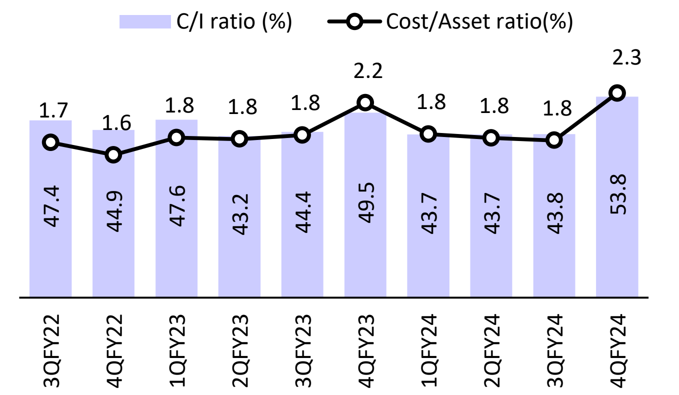
Source: MOFSL, Company

Exhibit 5: Loan mix as a % of domestic advances



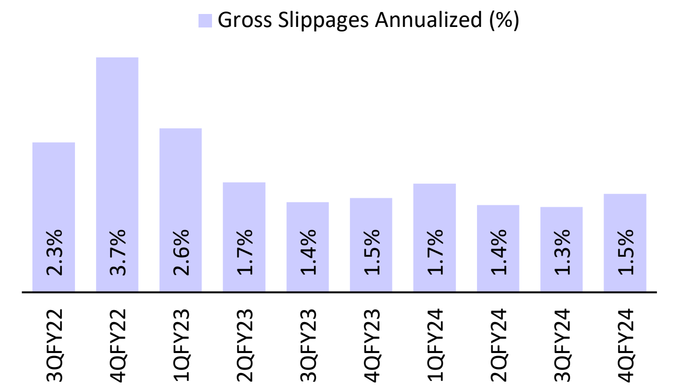
Source: MOFSL, Company

Exhibit 6: C/I ratio increased to 53.8% vs. 43.8% in 3QFY24



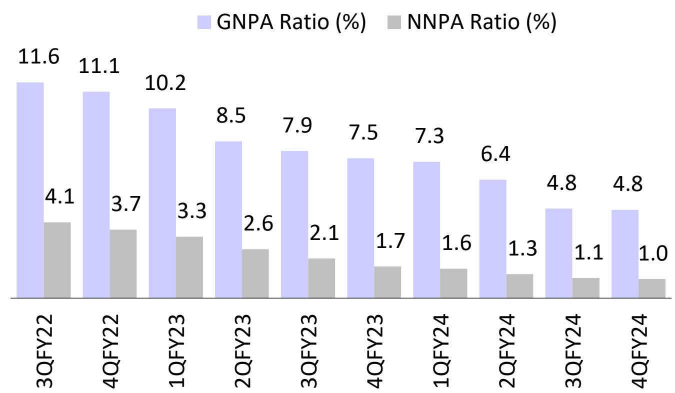
Source: MOFSL, Company

Exhibit 7: Slippages increased to 1.5% in 4QFY24



Source: MOFSL, Company

Exhibit 8: GNPA/NNPA ratios improved 7bp/5bp QoQ



Source: MOFSL, Company

Exhibit 9: DuPont Analysis: We expect return ratios to improve steadily over FY25/FY26

Y/E MARCH (%)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	7.13	6.57	6.01	6.54	7.47	7.43	7.36
Interest Expense	4.94	4.21	3.55	3.89	4.73	4.78	4.67
Net Interest Income	**2.19**	**2.36**	**2.46**	**2.65**	**2.74**	**2.65**	**2.68**
Non-Interest Income	**1.01**	**1.12**	**1.11**	**1.19**	**1.20**	**1.20**	**1.20**
Total Income	**3.20**	**3.48**	**3.57**	**3.84**	**3.94**	**3.85**	**3.89**
Operating Expenses	**1.44**	**1.60**	**1.63**	**1.78**	**1.83**	**1.80**	**1.79**
Employees	0.64	0.89	0.90	1.00	1.08	1.04	1.04
Others	0.80	0.71	0.74	0.77	0.75	0.75	0.75
Operating Profits	**1.76**	**1.88**	**1.94**	**2.06**	**2.11**	**2.05**	**2.10**
Core Operating Profits	**1.48**	**1.49**	**1.64**	**1.98**	**2.01**	**1.94**	**1.98**
Provisions	**2.53**	**1.65**	**1.18**	**1.08**	**0.51**	**0.56**	**0.57**
PBT	**(0.77)**	**0.23**	**0.76**	**0.98**	**1.60**	**1.49**	**1.52**
Tax	(0.22)	(0.05)	0.30	0.30	0.58	0.40	0.40
RoA	**(0.55)**	**0.28**	**0.46**	**0.68**	**1.02**	**1.09**	**1.13**
Leverage (x)	19.04	18.28	18.02	17.88	16.39	15.01	14.43
RoE	**(10.56)**	**5.08**	**8.34**	**12.22**	**16.74**	**16.31**	**16.27**

Financials and valuations

Income Statement							(INRb)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	372.3	687.7	679.4	807.4	997.8	1,083.9	1,177.6
Interest Expense	257.9	440.8	401.6	479.8	632.1	697.4	748.1
Net Interest Income	**114.4**	**246.9**	**277.9**	**327.7**	**365.7**	**386.5**	**429.5**
Growth (%)	12.0	115.9	12.5	17.9	11.6	5.7	11.1
Non-Interest Income	52.6	117.4	125.2	146.3	160.8	175.3	192.8
Total Income	**167.0**	**364.3**	**403.1**	**474.0**	**526.5**	**561.8**	**622.3**
Growth (%)	13.7	118.2	10.6	17.6	11.1	6.7	10.8
Operating Expenses	75.2	167.7	184.4	219.3	244.4	262.5	286.7
Pre Provision Profits	**91.8**	**196.7**	**218.7**	**254.7**	**282.1**	**299.4**	**335.6**
Growth (%)	22.1	114.2	11.2	16.4	10.8	6.1	12.1
Core PPP	**77.2**	**156.1**	**185.7**	**243.8**	**269.0**	**283.7**	**316.6**
Growth (%)	11.1	102.2	19.0	31.3	10.3	5.4	11.6
Provisions (excl. tax)	132.1	172.7	132.9	133.3	67.8	82.1	91.6
PBT	**-40.3**	**24.0**	**85.8**	**121.4**	**214.3**	**217.3**	**244.0**
Tax	-11.3	-5.1	33.5	37.0	77.8	58.7	63.4
Tax Rate (%)	28.1	-21.1	39.0	30.5	36.3	27.0	26.0
PAT	**-29.0**	**29.1**	**52.3**	**84.3**	**136.5**	**158.6**	**180.5**
Growth (%)	-1.7	-200.3	80.0	61.2	61.8	16.2	13.8

Balance Sheet							
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	34.2	64.1	68.3	68.3	76.3	76.3	76.3
Reserves & Surplus	303.6	580.7	637.4	715.0	893.4	1,021.4	1,167.6
Net Worth	**337.9**	**644.8**	**705.8**	**783.3**	**969.7**	**1,097.8**	**1,244.0**
Deposits	**4,506.7**	**9,238.1**	**10,323.9**	**11,177.2**	**12,215.3**	**13,326.9**	**14,566.3**
Growth (%)	8.4	105.0	11.8	8.3	9.3	9.1	9.3
- CASA Dep	**1,603.7**	**3,355.9**	**3,771.9**	**3,940.6**	**4,101.3**	**4,531.1**	**4,996.2**
Growth (%)	6.8	109.3	12.4	4.5	4.1	10.5	10.3
Borrowings	524.9	518.4	511.8	431.4	269.5	330.6	342.6
Other Liabilities & Prov.	137.4	315.9	334.4	415.6	465.1	520.9	583.4
Total Liabilities	**5,506.8**	**10,717.1**	**11,875.9**	**12,807.5**	**13,919.6**	**15,276.2**	**16,736.3**
Current Assets	551.1	844.1	1,195.0	1,121.5	1,193.0	1,215.5	1,237.4
Investments	**1,524.1**	**3,315.1**	**3,485.1**	**3,393.0**	**3,379.0**	**3,581.8**	**3,796.7**
Growth (%)	20.9	117.5	5.1	-2.6	-0.4	6.0	6.0
Loans	**3,150.5**	**5,909.8**	**6,610.0**	**7,618.5**	**8,707.8**	**9,752.7**	**10,923.0**
Growth (%)	6.1	87.6	11.8	15.3	14.3	12.0	12.0
Fixed Assets	47.6	73.4	71.9	88.3	92.2	96.8	101.7
Other Assets	233.5	574.6	513.9	586.3	547.5	629.4	677.5
Total Assets	**5,506.8**	**10,717.1**	**11,875.9**	**12,807.5**	**13,919.6**	**15,276.2**	**16,736.3**

Asset Quality							
GNPA	490.9	897.9	795.9	609.9	431.0	380.4	356.7
NNPA	173.0	279.4	249.3	133.6	89.9	82.8	75.1
Slippages	149.1	174.4	228.8	125.2	118.8	147.7	155.1
GNPA Ratio	14.15	13.75	11.12	7.53	4.76	3.79	3.18
NNPA Ratio	5.49	4.73	3.77	1.75	1.03	0.85	0.69
Slippage Ratio	5.02	2.93	3.65	1.76	1.46	1.60	1.50
Credit Cost	4.32	2.90	2.12	1.87	0.83	0.85	0.85
PCR (excl. Tech. write-off)	64.7	68.9	68.7	78.1	79.1	78.2	79.0

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	**7.5**	**7.0**	**6.4**	**6.9**	**7.9**	**7.8**	**7.7**
Avg. Yield on loans	8.2	7.7	7.2	8.0	8.8	8.8	8.6
Avg. Yield on Investments	7.7	6.8	5.9	6.3	6.7	6.8	6.9
Avg. Cost-Int. Bear. Liab.	**5.4**	**4.6**	**3.9**	**4.3**	**5.2**	**5.3**	**5.2**
Avg. Cost of Deposits	5.5	4.6	3.8	4.1	5.2	5.3	5.2
Interest Spread	**2.2**	**2.4**	**2.5**	**2.6**	**2.6**	**2.5**	**2.5**
Net Interest Margin	**2.3**	**2.5**	**2.6**	**2.8**	**2.9**	**2.8**	**2.8**
Capitalisation Ratios (%)							
CAR	12.7	12.6	14.5	16.0	16.7	17.0	17.0
Tier I	10.7	10.4	12.2	13.9	14.8	15.3	15.5
Tier II	2.0	2.2	2.3	2.1	1.9	1.7	1.5
Business and Efficiency Ratios (%)							
Loans/Deposit Ratio	69.9	64.0	64.0	68.2	71.3	73.2	75.0
CASA Ratio	35.6	36.3	36.5	35.3	33.6	34.0	34.3
Cost/Assets	1.4	1.6	1.6	1.7	1.8	1.7	1.7
Cost/Total Income	45.0	46.0	45.7	46.3	46.4	46.7	46.1
Cost/ Core Income	-0.5	-0.4	-0.6	-2.1	-1.9	-1.7	-1.6
Int. Expense/Int.Income	69.3	64.1	59.1	59.4	63.3	64.3	63.5
Fee Income/Total Income	22.7	21.1	22.9	28.6	28.1	28.4	27.9
Non Int. Inc./Total Income	31.5	32.2	31.1	30.9	30.5	31.2	31.0
Empl. Cost/Total Expense	44.7	55.4	54.9	56.5	58.8	58.1	57.9
CASA per branch (INR m)	374.4	360.3	425.1	459.4	473.4	517.9	565.4
Deposits per branch (INR m)	1,052.0	991.7	1,163.5	1,303.2	1,410.1	1,523.2	1,648.3
Business per Employee (INR m)	205.7	193.7	225.2	248.6	271.4	296.4	324.1
Profit per Employee (INR m)	-0.8	0.4	0.7	1.1	1.8	2.0	2.3
Investment/Deposit Ratio	33.8	35.9	33.8	30.4	27.7	26.9	26.1
Profitability Ratios and Valuation							
RoE	-10.6	5.1	8.3	12.2	16.7	16.3	16.3
RoA	-0.6	0.3	0.5	0.7	1.0	1.1	1.1
RoRWA	-1.0	0.5	1.0	1.4	2.1	2.2	2.3
Book Value (INR)	94	96	99	110	123	139	159
Growth (%)	-34.7	3.0	3.1	10.3	11.8	13.7	13.7
Price-BV (x)	1.5	1.5	1.4	1.3	1.2	1.0	0.9
Adjusted BV (INR)	55	63	72	94	112	130	149
Price-ABV (x)	2.6	2.2	2.0	1.5	1.3	1.1	1.0
EPS (INR)	-11.2	4.5	7.9	12.3	18.9	20.8	23.7
Growth (%)	-44.4	-140.6	74.2	56.1	52.9	10.1	13.8
Price-Earnings (x)	-12.7	31.3	18.0	11.5	7.5	6.8	6.0
Dividend Per Share (INR)	0.0	0.0	1.9	3.0	3.4	4.0	4.5
Dividend Yield (%)	0.0	0.0	1.3	2.1	2.4	2.8	3.2

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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