

Union Bank reported an 11% miss on PAT at Rs33bn (vs Emkay est.: Rs37bn) owing to impact of wage revision (Rs13.3bn) and tax expenses, which overrode the benefits from higher treasury income and reversal of NPI provisions. NIM was largely stable QoQ at 3.1%, unlike for peers who reported sequential improvement. Fresh slippages were slightly higher at Rs33bn/1.7% of loans due to seasonal stress in the agri portfolio, but higher recoveries caused a decline of 7bps QoQ in the GNPA ratio to 4.8%; specific PCR stood at a healthy 79%. Project financing accounts for ~28% of overall loans, with majority of the projects (~68%) already completed; hence, the bank does not expect any major impact from the RBI's new draft IRACP guidelines. Factoring-in the healthy NIM trajectory/lower tax rate (once it moves to the new tax regime) as well as the contained LLP, we expect the bank to report 1-1.1% RoA/15-16% RoE over FY25-27E. We revise up our TP to Rs150 (from Rs135), valuing the bank at 1x FY26E ABV. However, we retain REDUCE on the stock. Our preferred picks among PSBs are Indian Bank, BOB, SBI, and Canara Bank.

Union Bank of India: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	84,333	1,36,484	1,63,278	1,74,861	1,80,676
Loan growth (%)	15.3	14.3	12.6	12.9	14.1
NII growth (%)	17.9	11.6	9.1	9.9	11.1
NIM (%)	2.8	2.9	2.9	2.8	2.8
PPOP growth (%)	16.4	10.8	7.1	6.9	9.6
Adj. EPS (Rs)	12.3	18.9	21.4	22.9	23.7
Adj. EPS growth (%)	56.1	52.9	13.4	7.1	3.3
Adj. BV (INR)	93.2	119.3	137.9	157.3	175.3
Adj. BVPS growth (%)	27.9	28.0	15.7	14.0	11.5
RoA (%)	0.7	1.0	1.1	1.1	1.0
RoE (%)	12.2	16.1	15.8	14.9	13.8
P/E (x)	11.5	7.5	6.6	6.2	6.0
P/ABV (x)	1.5	1.2	1.0	0.9	0.8

Source: Company, Emkay Research

Steady margins, unlike peers reporting expansion in NIMs

Union Bank has delivered healthy credit growth at 14% YoY, mainly on account of strong traction in the agri portfolio. Retail growth @11% YoY/2% QoQ continues to moderate, as mortgage growth takes a back seat. Deposit growth picked up in 4Q at 9% YoY/4% QoQ, leading to contraction in LDR to 71% and thus to steady NIMs at 3.1%, unlike peers who have reported an improvement in NIMs. Bank guides to grow its loan book at 11-13%, with RAM constituting 55% of total loans; it envisages to grow its deposits at 9-11% (by targeting SURU centers) in FY25. The bank expects some liquidity stress going forward and, after taking into consideration its MCLR linked book (which still has further scope for upward revision), it has given a conservative NIM guidance of 2.8-3%.

Agri slippages push overall slippages upward

After steady moderation since the last 2 quarters, gross slippages were slightly higher at Rs33bn/1.7% of loans in Q4FY24 due to stress in the agri portfolio (based on seasonality factors), but higher recoveries led to a decline of 7bps QoQ in the GNPA ratio to 4.8%, with specific PCR standing tall at 79%. The bank still has a higher restructured pool, at 1.5% of loans, and should look to run it off at the earliest. The bank optimistically guides for a GNPA of less than 2% for FY25, backed by contained slippages and higher recoveries. The bank has made AIF provisions of Rs0.2bn during the quarter.

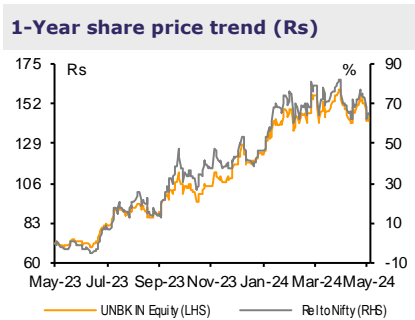
We retain REDUCE

Factoring-in the healthy NIM trajectory/lower tax rate (once it moves to new tax regime) and contained LLP, we expect Bank to report 1-1.1% RoA/15%-16% RoE over FY25-27E. We revise up our TP to Rs150 (from Rs135), valuing the bank at 1x FY26E ABV. However, we retain REDUCE on the stock. Our preferred picks among PSBs are Indian Bank, BOB, SBI, and Canara Bank. Key risks for Union Bank: Emerging asset-quality risk in the SME space, and growth moderation as macros deteriorate.

Target Price – 12M	Mar-25
Change in TP (%)	11.1
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	5.6
CMP (10-May-24) (Rs)	142.0

Stock Data	Ticker
52-week High (Rs)	163
52-week Low (Rs)	68
Shares outstanding (mn)	7,633.6
Market-cap (Rs bn)	1,084
Market-cap (USD mn)	12,982
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	25
ADTV-3M (Rs mn)	3,691.1
ADTV-3M (USD mn)	44.2
Free float (%)	23.0
Nifty-50	22,055
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	74.8
FPIs/MFs (%)	6.8/12.6

Price Performance				
(%)	1M	3M	12M	
Absolute	(5.9)	(4.6)	101.7	
Rel. to Nifty	(2.9)	(5.8)	67.5	



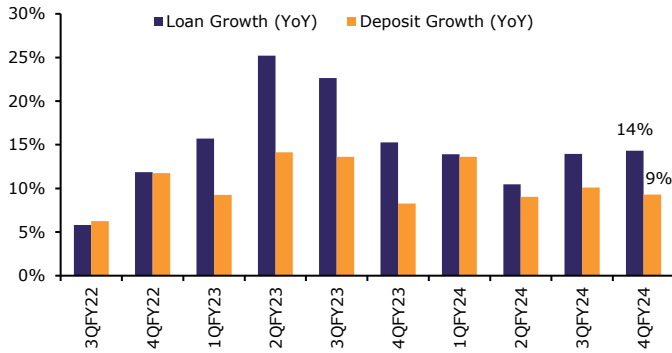
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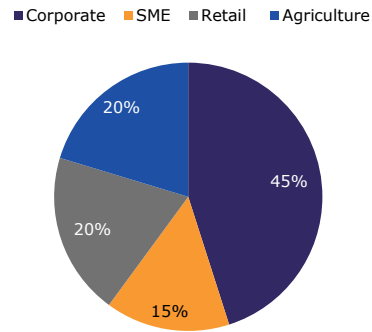
Story in Charts

Exhibit 1: Credit growth improves, but LDR contracts QoQ



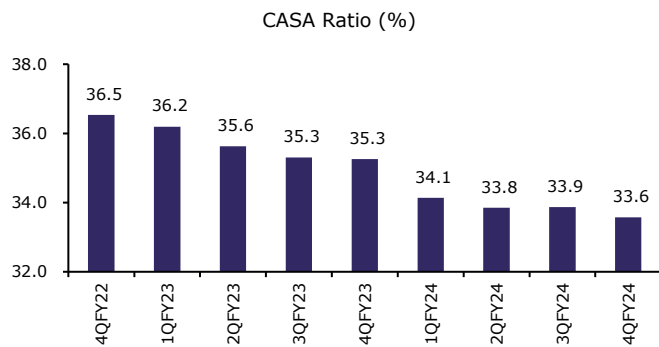
Source: Company, Emkay Research

Exhibit 2: RAM book contributed to 54% of the total loan portfolio



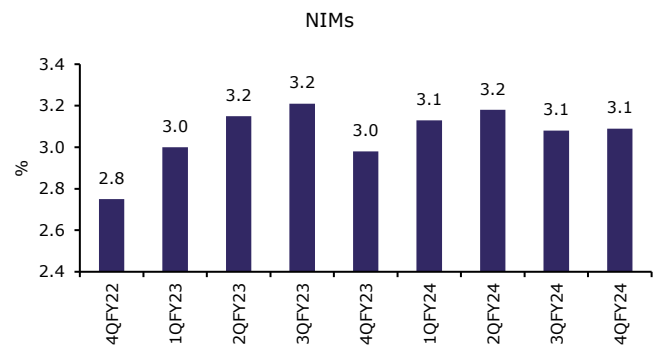
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains stable, but is relatively lower at 34%



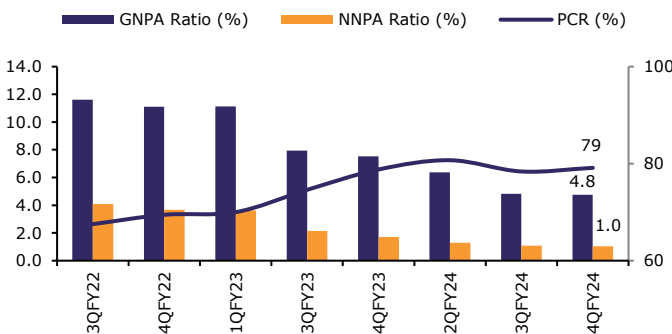
Source: Company, Emkay Research

Exhibit 4: Margin remains largely stable QoQ, unlike those of peers, who have reported improvement in 4Q



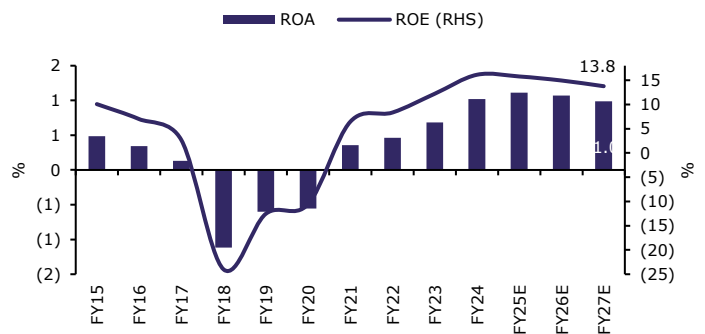
Source: Company, Emkay Research

Exhibit 5: Higher slippages stalled the sharp NPA improvement trajectory since the past few quarters



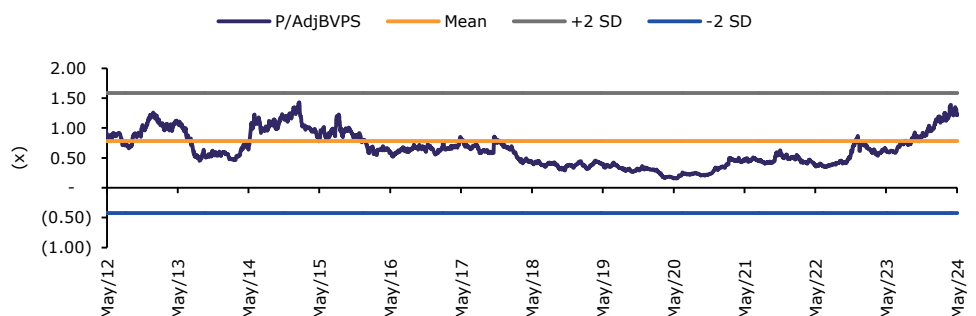
Source: Company, Emkay Research

Exhibit 6: We expect the bank to deliver RoA/RoE of 1.1%/15-16%, over FY25-26, E benefiting from healthy the NIMs/lower tax rate



Source: Company, Emkay Research

Exhibit 7: The stock trades at 1x Mar-25E P/ABV



Source: Bloomberg, Emkay Research

Exhibit 8: Actuals vs Estimates (4QFY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	141,442	132,026	131,541	7%	8%	Higher other income led to a beat
PPOP	65,330	73,541	74,026	-11%	-12%	Higher staff cost due to wage revision provision led to a PPOP miss
PAT	33,107	36,984	36,417	-10%	-9%	PPOP miss led to the miss on PAT

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Interest Earned	220,045	234,779	245,870	253,630	263,502	20	4	807,433	997,781	24
Interest Exp	137,540	146,382	154,609	161,950	169,135	23	4	479,780	632,076	32
Net Interest Income	82,506	88,397	91,261	91,680	94,367	14	3	327,653	365,705	12
Global NIMs (reported)	2.98	3.13	3.18	3.08	3.09	11bps	1bps	2.84	2.90	6bps
Non-interest Income	52,692	39,033	36,952	37,743	47,074	-11	25	146,332	160,802	10
Operating Expenses	66,964	55,637	56,004	56,648	76,111	14	34	219,313	244,400	11
Pre Provisioning Profit	68,234	71,793	72,208	72,776	65,330	-4	-10	254,672	282,107	11
Provision & Contingencies	29,356	20,050	17,679	17,478	12,596	-57	-28	133,294	67,802	-49
PBT	38,878	51,743	54,530	55,298	52,735	36	-5	121,377	214,305	77
Income Tax Expense (Gain)	11,055	19,379	19,416	19,399	19,628	78	1	37,045	77,821	110
Net Profit/(Loss)	27,823	32,364	35,114	35,899	33,107	19	-8	84,333	136,484	62
Gross NPA (%)	7.53	7.34	6.38	4.83	4.76	-277bps	-7bps	7.53	4.50	-303bps
Net NPA (%)	1.70	1.58	1.30	1.08	1.03	-66bps	-5bps	1.70	1.03	-67bps
Deposits (Rs bn)	11,177	11,281	11,376	11,725	12,215	9	4	11,177	12,215	9
Net Advances (Rs bn)	7,618	7,705	8,036	8,621	8,708	14	1	7,618	8,708	14

Source: Company, Emkay Research

Exhibit 10: Revision in Estimates

Y/E Mar (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	539,742	564,665	5%	577,670	607,610	5%
PPOP	284,493	302,219	6%	299,370	323,007	8%
PAT	153,374	163,278	6%	161,382	174,861	8%
EPS (Rs)	20.7	21.4	3%	21.8	22.9	5%
BV (Rs)	135.5	144.1	6%	152.9	162.4	6%

Source: Emkay Research

Exhibit 11: Key Assumptions

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	14.3	12.6	12.9	14.1
Deposit Growth	9.3	9.9	11.3	11.9
NIM	2.9	2.9	2.8	2.8
GNPA	4.8	3.1	2.1	2.0
Credit Cost	0.8	0.7	0.8	0.9

Source: Emkay Research

Exhibit 12: Key Ratios and Trends

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Loans (Rs bn)	7,164	7,286	7,737	8,040	8,099	8,185	8,472	8,960	9,049
<i>growth (YoY)</i>	9.6	13.0	21.9	20.1	13.1	12.3	9.5	11.4	11.7
<i>growth (QoQ)</i>	7.0	1.7	6.2	3.9	0.7	1.1	3.5	5.8	1.0
Liability Profile/CAR (%)									
Deposits (Rs bn)	10,324	9,928	10,433	10,650	11,177	11,281	11,376	11,725	12,215
<i>growth (YoY)</i>	11.8	9.3	14.1	13.6	8.3	13.6	9.0	10.1	9.3
<i>growth (QoQ)</i>	10.1	(3.8)	5.1	2.1	4.9	0.9	0.8	3.1	4.2
CASA (%)	36.5	36.2	35.6	35.3	35.3	34.1	33.8	33.9	33.6
CA (%)	7.0	6.0	6.3	6.3	6.6	5.9	5.4	6.0	6.0
SA (%)	29.5	30.2	29.4	29.0	28.6	28.2	28.4	27.8	27.5
Global NIM (%)	2.8	3.0	3.2	3.2	3.0	3.1	3.2	3.1	3.1
CAR (%)	14.5	14.4	14.5	14.5	16.0	16.0	16.7	15.0	17.0
Tier I (%)	12.2	12.1	12.3	11.8	13.9	13.9	14.6	13.1	15.0
Branches (no. of)	8,873	8,729	8,729	8,710	8,580	8,561	8,521	8,479	8,466
Asset Quality (%)									
GNPA	11.1	10.2	8.5	7.9	7.5	7.3	6.4	4.8	4.8
NNPA	3.7	3.3	2.6	2.1	1.7	1.6	1.3	1.1	1.0
PCR	69.5	69.9	70.6	74.6	78.8	79.8	80.7	78.4	79.1
Slippage	3.8	2.9	2.0	1.7	1.7	1.9	1.4	1.4	1.7
ROE Decomposition (%)									
NII	2.4	2.6	2.8	2.8	2.6	2.8	2.8	2.8	2.8
Other Income	0.8	0.9	1.1	0.9	1.5	1.0	0.9	0.9	1.1
Treasury	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Opex	1.6	1.7	1.7	1.7	2.1	1.7	1.7	1.7	2.2
PPOP	1.9	1.9	2.2	2.2	2.2	2.2	2.2	2.2	1.9
Provisioning Cost	1.3	1.1	1.4	1.0	0.9	0.6	0.5	0.5	0.4
PBT	0.7	0.7	0.8	1.2	1.2	1.6	1.7	1.7	1.5
Tax	0.2	0.2	0.2	0.4	0.4	0.6	0.6	0.6	0.6
ROA	0.5	0.5	0.6	0.7	0.9	1.0	1.1	1.1	1.0
ROE	8.2	8.7	10.1	11.9	14.4	16.2	16.4	15.7	13.9

Source: Company, Emkay Research

Union Bank of India: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	8,07,433	9,97,781	11,04,423	11,97,765	13,00,638
Interest Expense	4,79,780	6,32,076	7,05,295	7,59,301	8,13,403
Net interest income	3,27,653	3,65,705	3,99,129	4,38,463	4,87,235
NII growth (%)	17.9	11.6	9.1	9.9	11.1
Other income	1,46,332	1,60,802	1,65,536	1,69,147	1,75,326
Total Income	4,73,985	5,26,507	5,64,665	6,07,610	6,62,561
Operating expenses	2,19,313	2,44,400	2,62,447	2,84,603	3,08,654
PPOP	2,54,672	2,82,107	3,02,219	3,23,007	3,53,908
PPOP growth (%)	16.4	10.8	7.1	6.9	9.6
Core PPOP	2,43,840	2,53,607	2,66,594	2,78,475	3,00,470
Provisions & contingencies	1,33,294	67,802	68,964	89,236	1,12,362
PBT	1,21,377	2,14,305	2,33,255	2,33,771	2,41,545
Extraordinary items	0	0	0	0	0
Tax expense	37,045	77,821	69,976	58,910	60,869
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	84,333	1,36,484	1,63,278	1,74,861	1,80,676
PAT growth (%)	61.2	61.8	19.6	7.1	3.3
Adjusted PAT	84,333	1,36,484	1,63,278	1,74,861	1,80,676
Diluted EPS (Rs)	12.1	18.5	21.0	22.5	23.2
Diluted EPS growth (%)	55.4	53.1	13.5	7.1	3.3
DPS (Rs)	3.0	3.8	4.3	4.6	4.8
Dividend payout (%)	24.3	20.1	20.1	20.1	20.3
Effective tax rate (%)	30.5	36.3	30.0	25.2	25.2
Net interest margins (%)	2.8	2.9	2.9	2.8	2.8
Cost-income ratio (%)	46.3	46.4	46.5	46.8	46.6
Shares outstanding (mn)	6,834.7	7,633.6	7,633.6	7,633.6	7,633.6

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	6,09,876.6	4,30,986.6	3,10,456.0	2,37,334.0	2,55,288.3
Net NPLs	1,29,278.0	89,901.1	71,404.9	59,333.5	68,927.8
GNPA ratio (%)	7.5	4.8	3.1	2.1	2.0
NNPA ratio (%)	1.7	1.0	0.7	0.5	0.5
Provision coverage (%)	78.8	79.1	77.0	75.0	73.0
Gross slippages	1,25,186.0	1,18,770.0	1,20,530.6	1,46,243.8	1,79,542.4
Gross slippage ratio (%)	1.5	1.3	1.2	1.3	1.4
LLP ratio (%)	1.9	1.5	0.8	0.7	0.9
NNPA to networth (%)	16.6	8.7	6.1	4.5	4.7
Capital adequacy					
Total CAR (%)	15.9	17.0	17.1	16.8	16.2
Tier-1 (%)	13.8	15.0	15.3	15.2	14.8
CET-1 (%)	12.5	15.0	15.3	15.2	14.8
RWA-to-Total Assets (%)	45.4	45.4	45.8	46.6	47.3
Miscellaneous					
Total income growth (%)	18.5	21.5	9.6	7.6	8.0
Opex growth (%)	18.9	11.4	7.4	8.4	8.5
Core PPOP growth (%)	31.3	4.0	5.1	4.5	7.9
PPOP margin (%)	26.7	24.3	23.8	23.6	24.0
PAT/PPOP (%)	33.1	48.4	54.0	54.1	51.1
LLP-to-Core PPOP (%)	54.7	26.7	25.9	32.0	37.4
Yield on advances (%)	8.2	8.9	9.0	8.8	8.6
Cost of funds (%)	4.3	5.2	5.4	5.2	5.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	68,347	76,336	76,336	76,336	76,336
Reserves & surplus	7,14,995	8,93,354	10,23,807	11,63,553	13,07,588
Net worth	7,83,342	9,69,690	11,00,144	12,39,890	13,83,924
Deposits	1,11,77,163	1,22,15,284	1,34,25,289	1,49,46,979	1,67,25,994
Borrowings	4,31,375	2,69,484	3,08,536	3,44,182	3,89,023
Interest bearing liab.	1,16,08,538	1,24,84,767	1,37,33,824	1,52,91,161	1,71,15,017
Other liabilities & prov.	4,15,644	4,65,119	5,63,345	6,71,924	9,28,800
Total liabilities & equity	1,28,07,525	1,39,19,576	1,53,97,313	1,72,02,975	1,94,27,741
Net advances	76,18,455	87,07,761	98,05,168	1,10,71,525	1,26,38,099
Investments	33,92,990	33,79,035	37,09,072	40,77,147	45,23,980
Cash, other balances	11,21,505	11,93,029	11,67,375	12,23,293	12,83,626
Interest earning assets	1,21,32,950	1,32,79,825	1,46,81,616	1,63,71,965	1,84,45,705
Fixed assets	88,256	92,228	84,372	89,425	94,982
Other assets	5,86,319	5,47,524	6,31,325	7,41,584	8,87,054
Total assets	1,28,07,525	1,39,19,576	1,53,97,313	1,72,02,975	1,94,27,741
BVPS (Rs)	105.6	127.0	144.1	162.4	181.3
Adj. BVPS (INR)	93.2	119.3	137.9	157.3	175.3
Gross advances	80,99,053	90,48,846	1,00,44,219	1,12,49,526	1,28,24,459
Credit to deposit (%)	68.2	71.3	73.0	74.1	75.6
CASA ratio (%)	35.3	33.6	32.9	32.5	32.5
Cost of deposits (%)	4.1	5.1	5.3	5.2	5.0
Loans-to-Assets (%)	59.5	62.6	63.7	64.4	65.1
Net advances growth (%)	15.3	14.3	12.6	12.9	14.1
Deposit growth (%)	8.3	9.3	9.9	11.3	11.9
Book value growth (%)	6.3	26.9	7.5	12.7	11.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	11.5	7.5	6.6	6.2	6.0
P/B (x)	1.3	1.1	1.0	0.9	0.8
P/ABV (x)	1.5	1.2	1.0	0.9	0.8
P/PPOP (x)	3.8	3.8	3.6	3.4	3.1
Dividend yield (%)	2.1	2.7	3.0	3.2	3.4
DuPont-RoE split (%)					
NII/avg assets	2.7	2.7	2.7	2.7	2.7
Other income	1.2	1.2	1.1	1.0	1.0
Fee income	1.1	0.7	0.7	0.6	0.6
Opex	1.8	1.8	1.8	1.7	1.7
PPOP	2.1	2.1	2.1	2.0	1.9
Core PPOP	2.0	1.9	1.8	1.7	1.6
Provisions	1.1	0.5	0.5	0.5	0.6
Tax expense	0.3	0.6	0.5	0.4	0.3
RoA (%)	0.7	1.0	1.1	1.1	1.0
Leverage ratio (x)	17.9	15.8	14.2	13.9	14.0
RoE (%)	12.2	16.1	15.8	14.9	13.8
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	82,506	88,397	91,261	91,680	94,367
NIM(%)	3.0	3.1	3.2	3.1	3.1
PPOP	68,234	71,793	72,208	72,776	65,330
PAT	27,823	32,364	35,114	35,899	33,107
EPS (Rs)	4.07	4.74	5.14	5.25	4.84

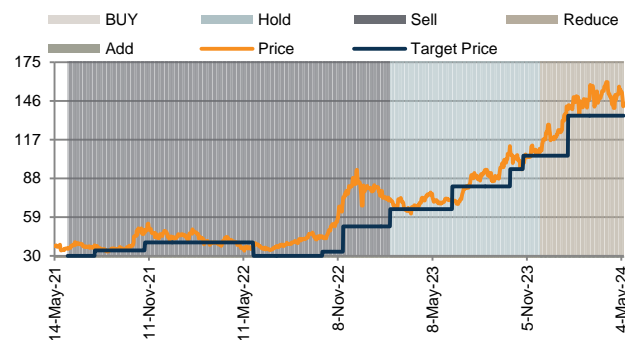
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jan-24	140	135	Reduce	Anand Dama
30-Nov-23	108	105	Reduce	Anand Dama
29-Oct-23	100	105	Hold	Anand Dama
04-Oct-23	108	95	Hold	Anand Dama
15-Jun-23	70	82	Hold	Anand Dama
09-Mar-23	72	65	Hold	Anand Dama
16-Feb-23	72	65	Hold	Anand Dama
18-Nov-22	74	52	Sell	Anand Dama
09-Oct-22	45	33	Sell	Anand Dama
30-May-22	38	30	Sell	Anand Dama
03-Nov-21	48	40	Sell	Anand Dama
30-Jul-21	37	34	Sell	Anand Dama
08-Jun-21	36	30	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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