

**Union Bank hosted an Analyst Meet to give an update on its recent performance and outlook on growth, margins, and asset quality. We believe management guidance on growth is optimistic, while margins are likely to come under pressure with commencement of a rate cut cycle. We list below KTAs from the Meet.**

#### Despite sub-par performance till now, the bank guides for optimistic credit growth of 11-13%

UNBK reported sub-credit growth at 6.7% in 3Q, primarily due to sharp slowdown in the agri book and the SME business. The slowdown in agri loans was mainly owing to the impact of debt waivers and recent regulatory restrictions on collateralization for gold loans (45-50% of UNBK's agri portfolio) for amounts up to Rs20K. On the other hand, MSME loan growth was affected by the reclassification of Rs50bn worth of loans into the mid-corporate segment due to turnover criteria and the declassification of Rs120bn worth of loans due to the absence of a URN. The bank believes that these issues are now largely behind, and hence guides to 11-13% credit growth in FY25 which would call for nearly a 9M equivalent credit growth in 4Q itself; this thus seems too optimistic to us.

#### Guides to NIM staying in the 2.8-3% range despite recent rate cut in FY25

Deposit growth too was subdued in 3Q, at 4% YoY, as the bank shed Rs320bn bulk deposits in view of the slower credit growth and for managing CoF. This, coupled with better LDR at 76%, led to nearly flattish NIM at 2.9%. Going forward, the bank plans to accelerate retail deposit growth, further to which it has launched a special campaign. The bank has also deployed 1,500 employees to enhance engagement and mobilize deposits from ETB/NTB customers. Despite the recent repo rate cut by the RBI, the bank expects NIM to remain within the 2.8-3.0% guidance, aided by an improved portfolio mix, stable CoD, and a higher LDR.

#### Intermittent corporate stress, retail/MSME dislocation are concerning

After a sharp jump in slippages in 2Q due to lumpy corporate default from the telecom sector, the bank posted lower slippages and hence low NPA in 3Q. But the SMA-2 book has inched up in 3Q due to one PSU account, which the mgmt claims is now making regular payment. Within retail, the bank has SMA build-up in home loans due to technical issues, due to a mismatch in the system between the loan payment and EMI dates. Also, the bank observed some stress build-up in the micro segment of its MSME portfolio. Notably, its MSME portfolio has been vulnerable in the past too which raises concern.

#### We retain REDUCE

The bank's performance of late has been marked by sharp slowdown in credit growth and intermittent asset quality hiccups. However, higher recovery from the write-off pool, lower operational cost, and tax rate have aided the bank's profitability. Factoring these in, we have upgraded earnings estimates by 9% for FY25E and expect the RoA/RoE to log at around 1.2%/18%, which could slip back to ~1%/13% by FY27E as growth and margin take a hit and operational cost normalizes. Thus, we retain REDUCE on the bank with unchanged TP of Rs120, based on 0.7x Dec-26E ABV. Within the PSB pack, we prefer better-quality players like Indian Bank, SBI, and BOB, given their healthy return ratios, management credibility, stability, and reasonable valuations.

Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	2.6

Stock Data	UNBK IN
52-week High (Rs)	173
52-week Low (Rs)	101
Shares outstanding (mn)	7,633.6
Market-cap (Rs bn)	895
Market-cap (USD mn)	10,327
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	12
ADTV-3M (Rs mn)	1,585.8
ADTV-3M (USD mn)	18.3
Free float (%)	25.2
Nifty-50	22,553.3
INR/USD	86.7

#### Shareholding, Dec-24

Promoters (%)	74.8
FPIs/MFs (%)	6.5/11.9

#### Price Performance

(%)	1M	3M	12M
Absolute	9.3	2.0	(19.6)
Rel. to Nifty	11.9	8.1	(20.8)

#### 1-Year share price trend (Rs)



#### Union Bank of India: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	84,333	136,484	173,961	167,883	159,891
Loan growth (%)	15.3	14.3	7.1	6.5	10.4
NII growth (%)	17.9	11.6	1.2	2.9	6.6
NIM (%)	2.8	2.9	2.7	2.7	2.6
PPOP growth (%)	16.4	10.8	8.9	(0.6)	1.7
Adj. EPS (Rs)	12.3	18.9	22.8	22.0	20.9
Adj. EPS growth (%)	56.1	52.9	20.8	(3.5)	(4.8)
Adj. BV (INR)	93.2	111.9	134.0	151.3	167.1
Adj. BVPS growth (%)	27.9	20.1	19.8	12.9	10.4
RoA (%)	0.7	1.0	1.2	1.1	1.0
RoE (%)	12.2	16.7	17.5	14.8	12.7
P/E (x)	9.5	6.2	5.1	5.3	5.6
P/ABV (x)	1.3	1.0	0.9	0.8	0.7

Source: Company, Emkay Research

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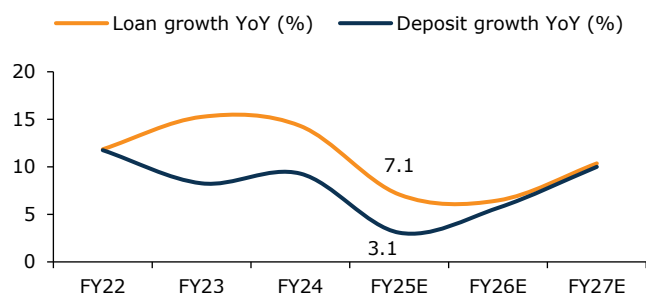
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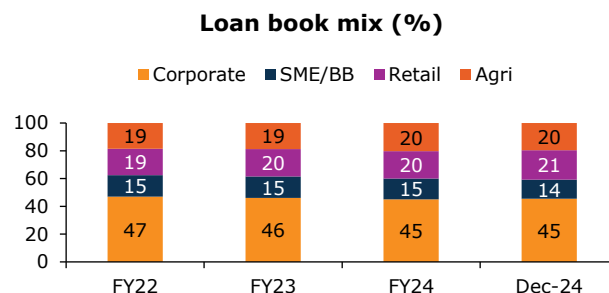
## Story in Charts

**Exhibit 1: We expect credit growth as well as deposit growth to remain moderate**



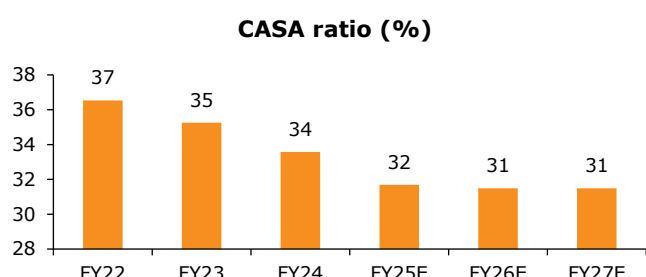
Source: Company, Emkay Research

**Exhibit 2: Loan mix shows no signs of improvement, with heavy dependence on corporate loans**



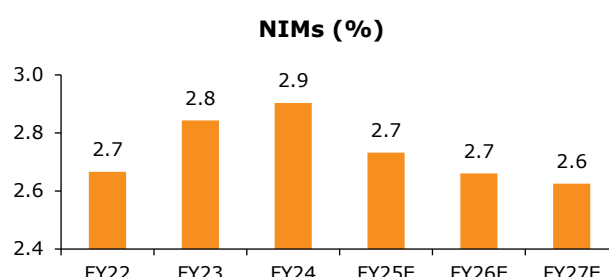
Source: Company, Emkay Research

**Exhibit 3: Lower CASA ratio...**



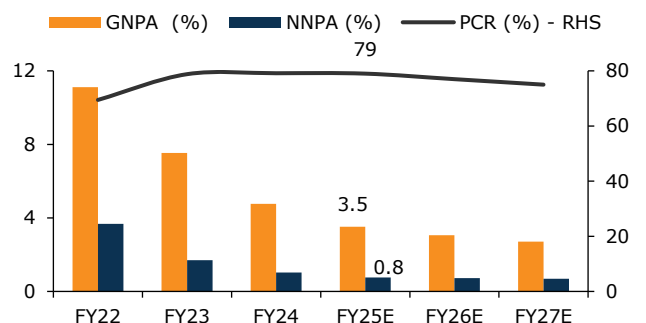
Source: Company, Emkay Research

**Exhibit 4: ...coupled with lower yields shall lead to fall in NIMs**



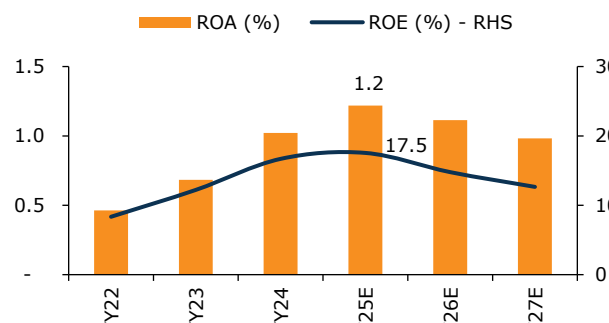
Source: Company, Emkay Research

**Exhibit 5: The intermittent higher slippages could lead to the NPA decline slowing**



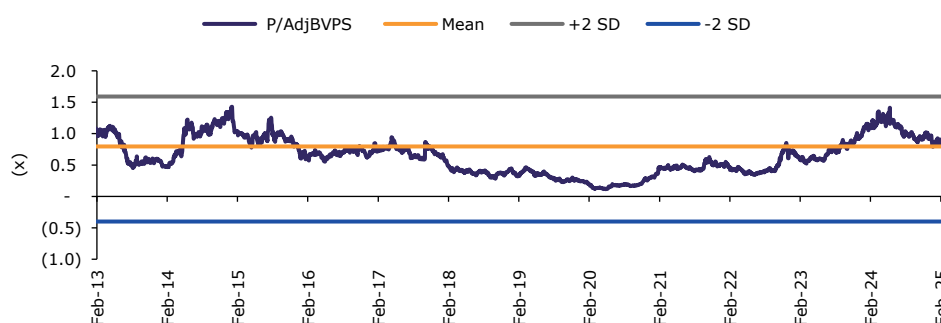
Source: Company, Emkay Research

**Exhibit 6: We expect the bank's return ratios to be hit by slower growth/margins and normalization of operational cost**



Source: Company, Emkay Research

**Exhibit 7: The stock currently trades closer to its mean valuations**



Source: Bloomberg, Emkay Research

Union Bank of India: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	807,433	997,780	1,073,851	1,087,968	1,142,596
Interest Expense	479,780	632,076	703,873	707,235	736,580
Net interest income	327,653	365,704	369,978	380,733	406,016
NII growth (%)	17.9	11.6	1.2	2.9	6.6
Other income	146,332	160,802	187,521	189,550	188,851
Total Income	473,985	526,506	557,498	570,283	594,867
Operating expenses	219,313	244,399	250,281	264,862	284,308
PPOP	254,672	282,107	307,217	305,421	310,559
PPOP growth (%)	16.4	10.8	8.9	(0.6)	1.7
Core PPOP	243,840	262,804	276,332	265,270	268,401
Provisions & contingencies	133,294	67,802	72,135	80,978	96,801
PBT	121,378	214,304	235,082	224,443	213,758
Extraordinary items	0	0	0	0	0
Tax expense	37,045	77,821	61,121	56,560	53,867
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	84,333	136,484	173,961	167,883	159,891
PAT growth (%)	61.2	61.8	27.5	(3.5)	(4.8)
Adjusted PAT	84,333	136,484	173,961	167,883	159,891
Diluted EPS (Rs)	12.3	17.9	22.8	22.0	20.9
Diluted EPS growth (%)	61.2	44.9	27.5	(3.5)	(4.8)
DPS (Rs)	3.0	3.8	4.3	4.6	4.8
Dividend payout (%)	24.3	20.1	18.9	20.9	22.9
Effective tax rate (%)	30.5	36.3	26.0	25.2	25.2
Net interest margins (%)	2.8	2.9	2.7	2.7	2.6
Cost-income ratio (%)	46.3	46.4	44.9	46.4	47.8
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	609,877	430,983	337,463	310,622	303,072
Net NPLs	129,278	89,905	70,867	71,443	75,768
GNPA ratio (%)	7.5	4.8	3.5	3.1	2.7
NNPA ratio (%)	1.7	1.0	0.8	0.7	0.7
Provision coverage (%)	78.8	79.1	79.0	77.0	75.0
Gross slippages	125,186	118,767	124,693	134,208	150,984
Gross slippage ratio (%)	1.5	1.3	1.3	1.3	1.4
LLP ratio (%)	1.5	0.8	0.8	0.8	0.9
NNPA to networth (%)	16.6	9.2	6.3	5.6	5.4
Capital adequacy					
Total CAR (%)	15.9	17.0	17.9	18.3	18.1
Tier-1 (%)	13.8	15.0	16.0	16.6	16.6
CET-1 (%)	12.5	14.5	15.6	16.2	16.2
RWA-to-Total Assets (%)	45.4	45.4	47.0	47.9	48.1
Miscellaneous					
Total income growth (%)	18.5	21.5	8.9	1.3	4.2
Opex growth (%)	18.9	11.4	2.4	5.8	7.3
Core PPOP growth (%)	31.3	7.8	5.1	(4.0)	1.2
PPOP margin (%)	26.7	24.3	24.4	23.9	23.3
PAT/PPOP (%)	33.1	48.4	56.6	55.0	51.5
LLP-to-Core PPOP (%)	54.7	25.8	26.1	30.5	36.1
Yield on advances (%)	8.2	8.9	8.9	8.4	8.2
Cost of funds (%)	4.3	5.2	5.5	5.3	5.2

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	714,995	893,354	1,046,668	1,176,755	1,297,458
Net worth	783,342	969,690	1,123,004	1,253,091	1,373,794
Deposits	11,177,163	12,215,281	12,590,577	13,306,113	14,636,725
Borrowings	431,375	269,484	292,268	307,975	324,753
Interest bearing liab.	11,608,538	12,484,764	12,882,845	13,614,089	14,961,478
Other liabilities & prov.	415,644	465,122	619,341	640,805	713,073
Total liabilities & equity	12,807,525	13,919,576	14,625,190	15,507,985	17,048,344
Net advances	7,618,455	8,707,761	9,325,173	9,928,096	10,956,698
Investments	3,392,990	3,379,035	3,504,702	3,676,019	4,006,131
Cash, other balances	1,121,505	1,193,029	1,133,690	1,198,040	1,316,610
Interest earning assets	12,132,950	13,279,825	13,963,565	14,802,155	16,279,439
Fixed assets	88,256	92,228	83,237	88,279	93,825
Other assets	586,319	547,523	578,387	617,550	675,080
Total assets	12,807,525	13,919,576	14,625,190	15,507,985	17,048,344
BVPS (Rs)	105.6	119.6	140.1	157.5	173.6
Adj. BVPS (INR)	93.2	111.9	134.0	151.3	167.1
Gross advances	8,099,053	9,048,839	9,591,769	10,167,275	11,184,003
Credit to deposit (%)	68.2	71.3	74.1	74.6	74.9
CASA ratio (%)	35.3	33.6	31.7	31.5	31.5
Cost of deposits (%)	4.1	5.0	5.5	5.3	5.1
Loans-to-Assets (%)	59.5	62.6	63.8	64.0	64.3
Net advances growth (%)	15.3	14.3	7.1	6.5	10.4
Deposit growth (%)	8.3	9.3	3.1	5.7	10.0
Book value growth (%)	9.7	13.2	17.1	12.4	10.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	9.5	6.2	5.1	5.3	5.6
P/B (x)	1.1	1.0	0.8	0.7	0.7
P/ABV (x)	1.3	1.0	0.9	0.8	0.7
P/PPOP (x)	3.1	3.2	2.9	2.9	2.9
Dividend yield (%)	2.6	3.2	3.7	3.9	4.1
DuPont-RoE split (%)					
NII/avg assets	2.7	2.7	2.6	2.5	2.5
Other income	1.2	1.2	1.3	1.3	1.2
Fee income	1.1	1.1	0.8	0.8	0.8
Opex	1.8	1.8	1.8	1.8	1.7
PPOP	2.1	2.1	2.2	2.0	1.9
Core PPOP	2.0	2.0	1.9	1.8	1.6
Provisions	1.1	0.5	0.5	0.5	0.6
Tax expense	0.3	0.6	0.4	0.4	0.3
RoA (%)	0.7	1.0	1.2	1.1	1.0
Leverage ratio (x)	17.9	16.3	14.4	13.3	12.9
RoE (%)	12.2	16.7	17.5	14.8	12.7

Quarterly data					
Rs mn, Y/E Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25E
NII	94,367	94,121	90,473	92,403	92,982
NIM (%)	3.1	3.1	2.9	2.9	2.9
PPOP	65,330	77,853	81,128	74,918	73,319
PAT	33,107	36,789	47,197	46,036	43,939
EPS (Rs)	4.3	4.8	6.2	6.0	5.8

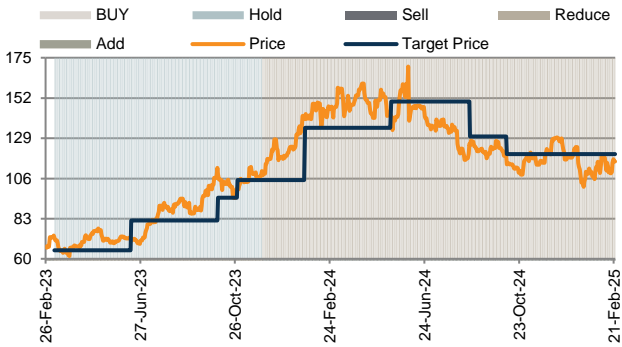
Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Oct-24	114	120	Reduce	Anand Dama
21-Aug-24	125	130	Reduce	Anand Dama
12-May-24	142	150	Reduce	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



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<b>ADD</b>	5-15% upside
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<b>SELL</b>	<15% downside

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