Union Bank of India (UNBK IN)

Rating: BUY | CMP: Rs120 | TP: Rs140

Strong capital adequacy a lever for growth

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Company Initiation

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Strong capital adequacy a lever for growth

We initiate coverage on UNBK with 'BUY' given the consistent improvement in earnings quality as reflected by (1) steady stress reduction leading to material decline in provisions, (2) lower NIM fall due to profitability focus (3) improving fee to asset ratio and (4) enhancing capital adequacy (currently best-in-class). While GNPA has materially reduced over FY22-9MFY25 from 11.1% to 3.9%, it could further fall, suggesting that GNPA decline over FY25-27E may be higher than peers. With all wage-related provisions accounted, opex should not see any negative surprises and may grow in tandem with loans; we expect core RoA/RoE of 0.9%/12% to sustain over the medium term. Valuation is attractive at 0.7x on Mar'27 ABV suggesting a 23% discount to SBI. We assign a multiple of 0.9x on Mar'27 ABV to arrive at a TP of Rs140. Initiate with 'BUY'.

- **Increasing share of higher yielding RAM:** RAM share has increased from ~53% in Q4FY22 to ~55% in Q3FY25. Apart from agri, the bank is also focusing on the higher yielding segment of education loans and LAP within retail. Due to quality underwriting, GNPA in education loans is controlled. PL share is 1.2% of loans and exposure may not increase due to recent asset quality challenges. Corporate growth has been lower as slower capex spend by the government has resulted increased competition and predatory pricing. We expect an overall loan/deposit CAGR of 10%/10% over FY25-27E with an LDR of ~76%. Over FY25-27E, NIM could be cushioned by (1) discontinuance of special deposit scheme with higher interest, (2) implementation of Project LEAP to retain and shore up CASA (3) reduction in high cost wholesale deposits.

- **Superior fees & lower opex growth to cushion core RoA:** Over FY22-24, fee to assets ratio improved from 54bps to 68bps (class leading) led by (1) consistent rise in PSLC fees, (2) leveraging custodian facilities to FPIs, (3) timely renewal and review of term loans, leading to better processing fees (4) more focus on transaction banking and TPP income, and (5) deeper relationships with existing corporates for fee-based income and TPP. As all wage hikes have been accounted for, opex growth should mirror loan growth. We expect core RoA/RoE of 0.9%/12% to sustain over FY25-27E.

- **Higher GNPA reduction likely vs peers:** After the merger with Corporation Bank and Andhra Bank, GNPA worsened to 14.95% (Q1FY21). However, over FY22-24, GNPA has materially reduced from 11.11% to 4.76% due to reduction in slippage ratio and increase in recoveries. As a result, provisions declined from 212bps to 83bps. Although, GNPA has reduced significantly, it is still higher at 3.85%, suggesting fall over FY25-27E could be material compared to peers. We expect GNPA to reduce from 3.6% to 2.7% in FY25-27E.

- **Best-in-class capital adequacy:** UNBK's CET-1 at 14% is higher to peers while capital utilization has been more conservative which may protect future asset quality. Gap between loan and RWA CAGR is wider to peers. Over Q4FY22 to Q3FY25, loan CAGR for was 12.8% although RWA CAGR was 8.2%. Adjusting for equity raise over FY22 and FY24 of ~Rs94bn, CET-1 accretion has been healthier due to consistent reduction in DTA and normalization of pension expense after FY22. We expect CET-1 in FY25E to be between 14.5-15.0%.

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
NII (Rs m)	3,65,704	3,70,763	3,94,058	4,33,642
Op. Profit (Rs m)	2,82,106	2,97,679	2,92,140	3,20,001
PAT (Rs m)	1,36,483	1,62,455	1,50,677	1,64,801
EPS (Rs.)	17.9	21.3	19.7	21.6
Gr. (%)	*44.9*	*19.0*	*(7.3)*	*9.4*
DPS (Rs.)	3.6	4.3	3.9	4.3
Yield (%)	*3.0*	*3.6*	*3.3*	*3.6*
NIM (%)	*2.9*	*2.7*	*2.7*	*2.7*
RoAE (%)	*16.7*	*16.5*	*13.5*	*13.2*
RoAA (%)	*1.0*	*1.1*	*1.0*	*1.0*
P/BV (x)	1.0	0.9	0.8	0.7
P/ABV (x)	1.1	0.9	0.8	0.7
PE (x)	6.7	5.6	6.1	5.5
CAR (%)	17.0	18.9	21.4	21.9

Key Data	UNBK.BO | UNBK IN
52-W High / Low	Rs. 173 / Rs. 101
Sensex / Nifty	75,449 / 22,908
Market Cap	Rs. 914 bn/ $ 10,569 m
Shares Outstanding	7,634m
3M Avg. Daily Value	Rs. 1436.9m

Shareholding Pattern (%)	
Promoter's	74.76
Foreign	6.46
Domestic Institution	11.94
Public & Others	6.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.1	(2.4)	(19.8)
Relative	4.8	7.6	(23.4)

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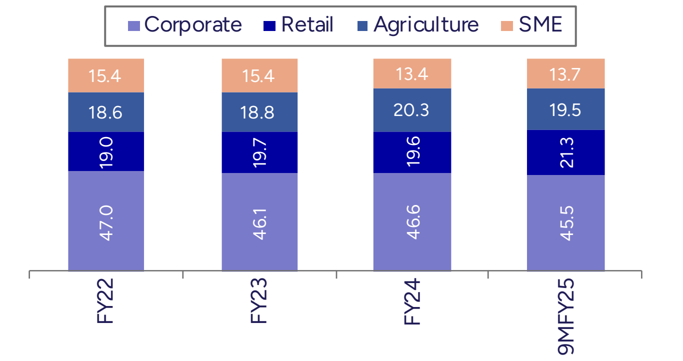
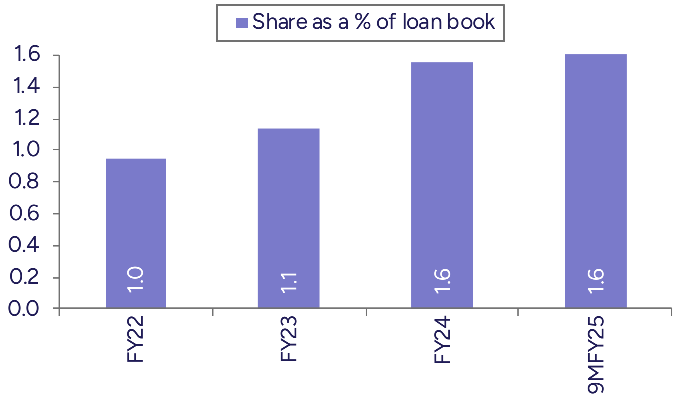
Story in Charts

Exhibit 1: Loan mix: Share of retail consistently improving



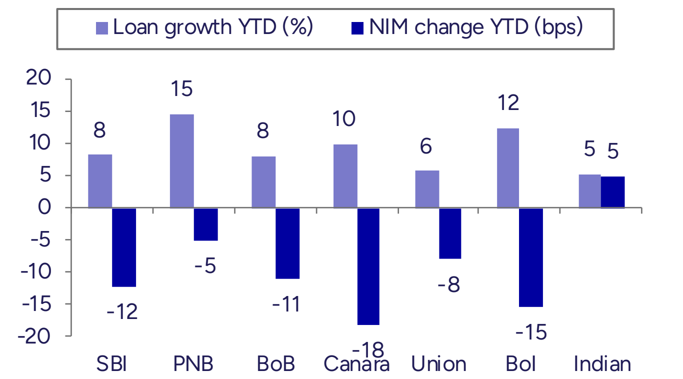
Source: Company, PL

Exhibit 2: High-yielding education share increasing



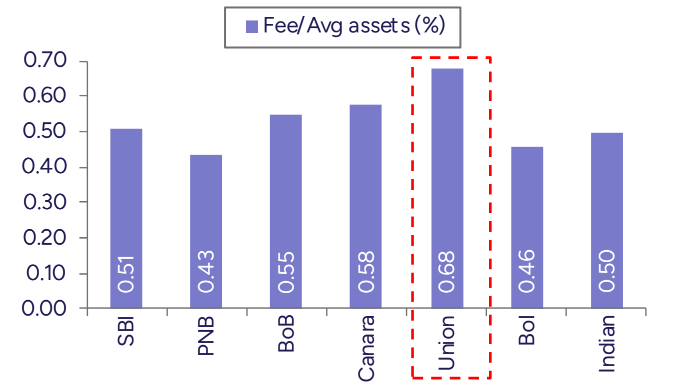
Source: Company, PL

Exhibit 3: Preference towards profitability over growth



Source: Company, PL

Exhibit 4: UNBK has the highest fee/asset among peers (FY24)



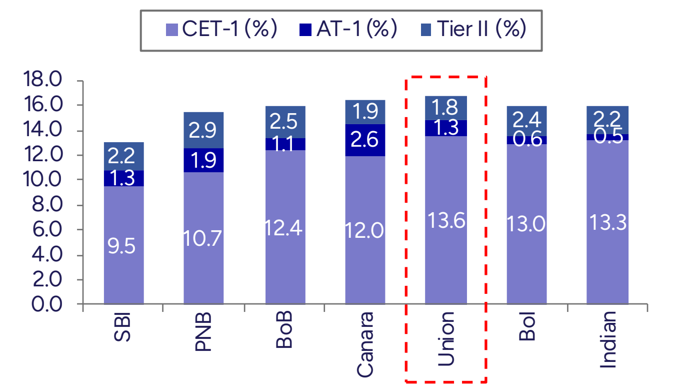
Source: Company, PL

Exhibit 5: Marked improvement in UNBK asset quality vs peers

Asset Quality	GNPA (%)			PCR (%)	
	FY22	9MFY25	*Decline*	FY22	9MFY25
SBI	4.0	2.1	*1.9*	75.0	74.7
PNB	11.8	4.1	*7.7*	62.2	90.2
BoB	6.6	2.4	*4.2*	75.3	76.0
Canara	7.5	3.3	*4.2*	66.5	74.1
Union	11.1	3.9	*7.3*	69.5	79.3
BoI	10.0	3.7	*6.3*	78.4	77.5
Indian	8.5	3.3	*5.2*	74.9	93.8

Source: Company, PL

Exhibit 6: CET-1 ratio for UNBK best in class



Source: Company, PL

Company Background

Nationalized in 1969, the Union Bank of India (UNBK) is majority-owned by the GoI (74.8%). As at Dec'24, its assets were Rs14.07trn with net advances of Rs9.2trn and deposits of Rs12.17trn. UNBK is the 7th largest bank in India in terms of deposits and 8th largest in terms of loans. UNBK's market share was 5.5% in deposits and 5.2% in advances. Overall branches were 8,574 with employee base of 74,300.

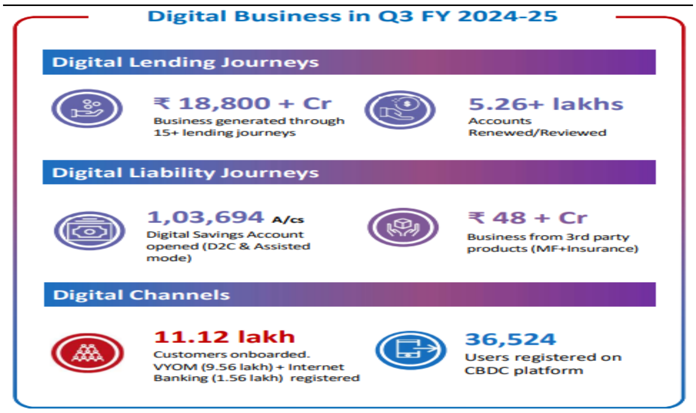
A significant milestone was the amalgamation of Andhra Bank and Corporation Bank with UNBK w.e.f. 1st April, 2020. Immediately post the merger, its assets increased to Rs10.2trn from Rs5.5trn, deposits rose to Rs8.7trn from Rs4.5trn and loans enhanced to Rs6.0trn from Rs3.15trn; its market share in deposits and loans jumped to 6.0%/5.2% from 3.3%/2.9%. GNPA post-merger increased to 14.60% from 14.15%, however it has materially reduced to 3.85%. Overall branches more than doubled, as majority branches increased in Telangana/Andra Pradesh.

Bank focused on improving asset quality by adopting robust credit risk assessment mechanisms and adhering to responsible lending practices. UNBK implemented a system for regular data dump analysis to identify control gaps, to enhance accuracy and completeness.

Exhibit 7: 8500+ branches and 74300+ employees

Source: Company, PL

Exhibit 8: Digital lending aimed to increase over time



Source: Company, PL

Exhibit 9: Strategic initiatives implemented by the bank

Initiative	Objective
Diversification of funding sources	UNBK focused on increasing CASA through targeted products and customer engagement strategies. Initiatives such as "Union Samriddhi" and "Union Udaan" significantly attracted specific customer segments.
Enhanced risk management	Significant reduction in GNPA ratio was achieved through stringent credit monitoring, timely resolution of stressed assets, and improved underwriting standards.
Optimized capital structure	The trend of LDR indicates effective capital utilization, ensuring that the bank maintains a healthy balance between growth and liquidity. This approach enhanced the banks' profitability and financial stability.
Technological advancements	Adopting advanced analytics/digital platforms like real-time monitoring of deposits, predictive analytics for customer behavior and automated risk assessment tools has enabled better management of liabilities.

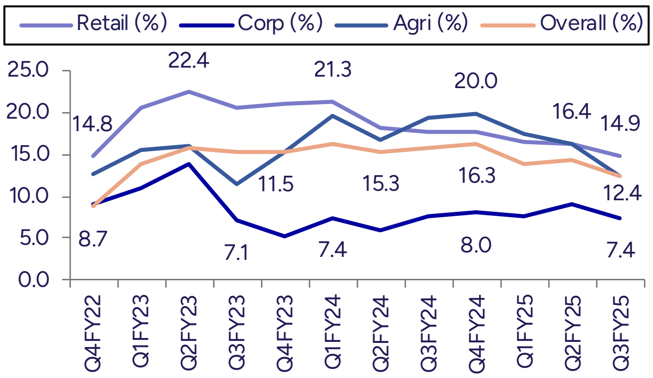
Source: Company, PL

Key Investment Arguments

Increasing share of higher yielding RAM

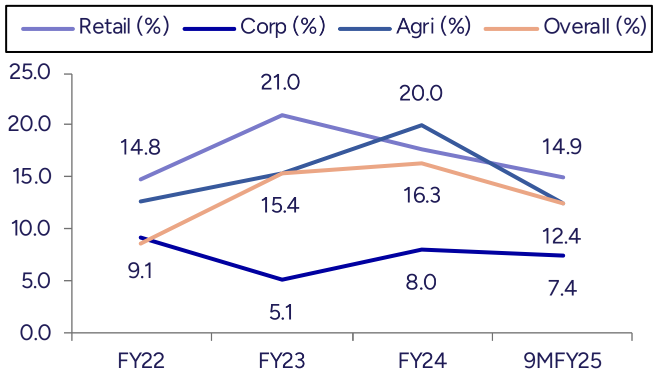
In line with system credit offtake, the non-corporate segment of UNBK, i.e., RAM (retail, agri & MSME), has grown at a faster pace, resulting in a steady increase in its share from 53% in Q4FY22 to 54.5% in Q3FY25. Also, the bank is focusing more on RAM owing to its stickiness. In contrast, corporate book growth has been lower than anticipated, as capex spend from the government side has been slower. In corporate lending, growth is mostly led by the refinancing market, and if a bank participates aggressively, pricing could be impacted.

Exhibit 10: Loan growth slowing for the system



Source: RBI, PL; Note: Ex-HDFC numbers

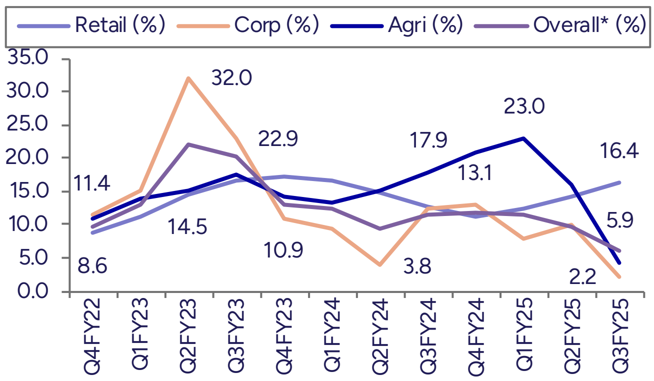
Exhibit 11: Corporate growth yet to pick-up



Source: RBI, PL; Note: Ex-HDFC numbers

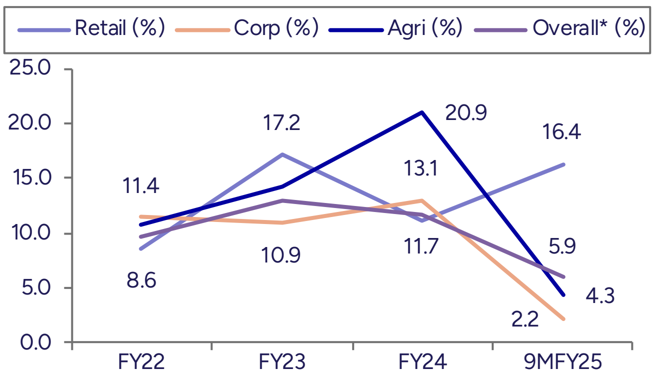
Because of pricing pressure and competition in the market, UNBK has decided to not be aggressive in corporate lending. Moreover, corporate growth is a function of asset liability management since funds are raised via wholesale and RTD, and wholesale deposits generally have a shorter tenure. As a result, corporate growth has also been volatile. Within retail, the bank aims to expand its LAP and vehicle loan portfolio. A calibrated approach is being followed in LAP i.e. if an existing HL customer has an additional requirement, a top-up loan is given which would be priced higher than a pure vanilla home loan. Within vehicle, focus in on 4-W loans.

Exhibit 12: Retail growth gaining momentum for UNBK



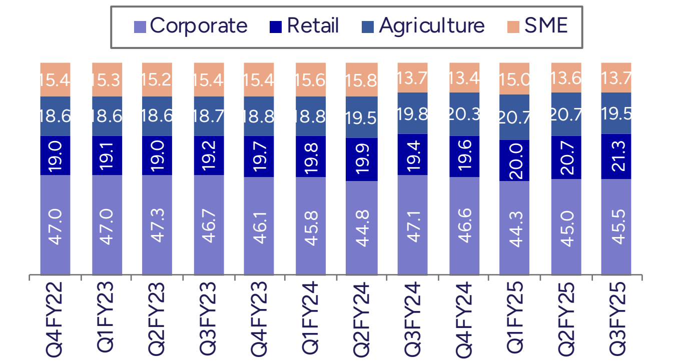
*Source: RBI, PL; *Gross Advances*

Exhibit 13: Loan growth YTD for UNBK lower due to corporate



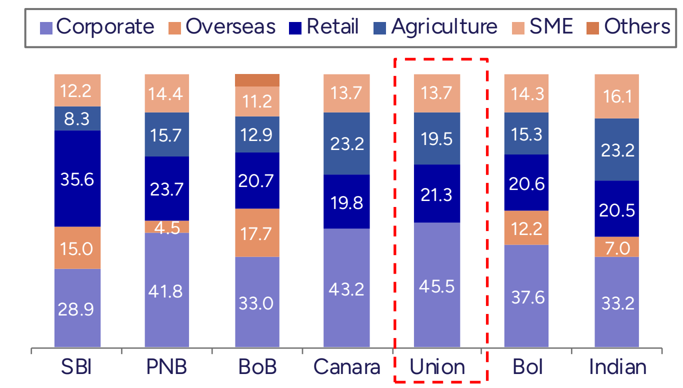
*Source: RBI, PL; *Gross Advances*

Exhibit 14: UNBK corporate share is gradually decreasing



Source: Company, PL

Exhibit 15: RAM share for UNBK at 54.5% (Dec'24)

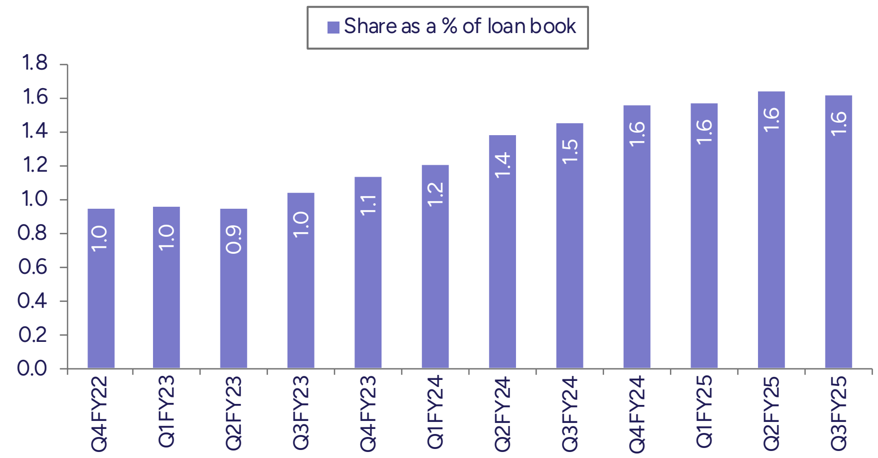


Source: Company, PL

Conversely, retail, agriculture and MSME credit flow has been consistent, and may not reverse suddenly. Within RAM, focus is on the higher yielding segments – education and LAP. Education loans fall under the unsecured category, in which yield is relatively higher than RAM.

Further, UNBK prefers giving education loans to students who have secured admission to premier institutes, in India or abroad. Also parents' history important is in terms of networth etc. Bank requires third-party guarantee for education within the country and collaterals, in some cases, for overseas education.

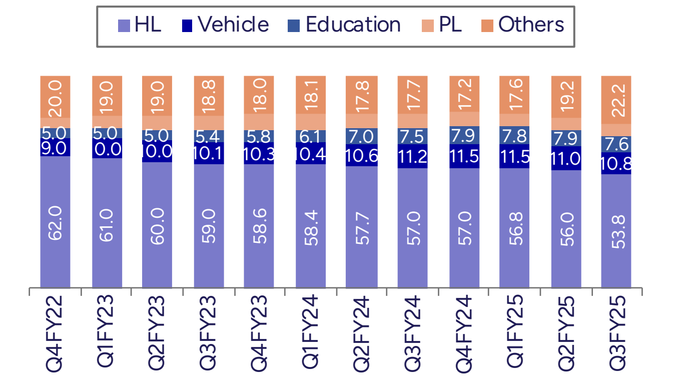
Exhibit 16: Share of education loan increased over the last 2 years



Source: Company, PL

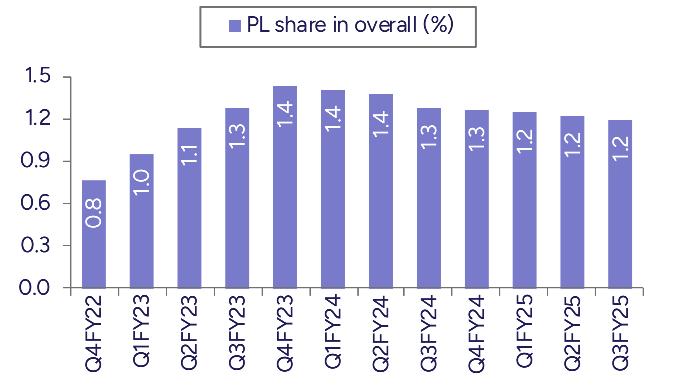
For the industry, stress is higher in the sub-Rs0.4mn segment; hence, the bank targets the >=Rs0.4mn segment, in which several courses have been identified. While education loans for the system have witnessed higher stress historically, asset quality for UNBK has been improving over the last 3-4 years due to the focus on premier institutes; delinquency during the last 6 months reduced materially.

Exhibit 17: Within retail, share of housing declining for UNBK



Source: Company, PL

Exhibit 18: Personal loan share stable due to recent stress

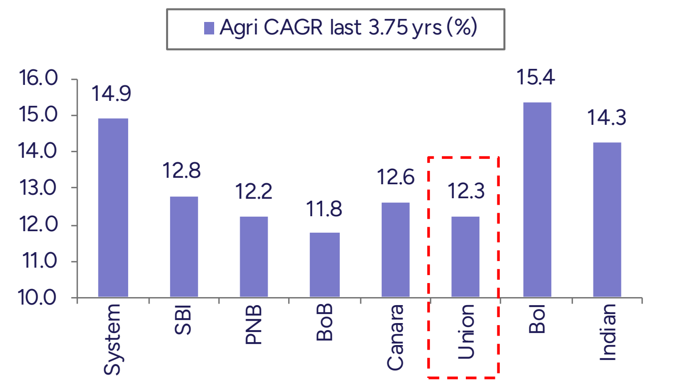


Source: Company, PL

PL contributes 1.2% to gross advances. UNBK plans to maintain the share at current levels due to recent asset quality challenges in the unsecured space. Thus, PL exposure is not expected to increase and within PL, focus is mainly on customers who have been maintaining a salary account with the bank. However, if in future, unsecured becomes an important segment, the bank is fully prepared with its digital infrastructure (analytics & personnel).

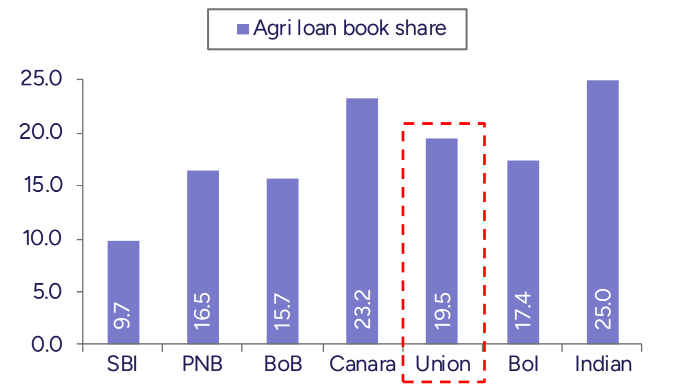
Overall retail has grown between 13-15% over FY23 till date and the management does not foresee any challenges to sustain this run-rate (excluding housing due to its high base) unless there is a system slowdown.

Exhibit 19: UNBK agri. loan CAGR lower to system



Source: Company, PL

Exhibit 20: UNBK agri share in overall loans (Q3FY25)

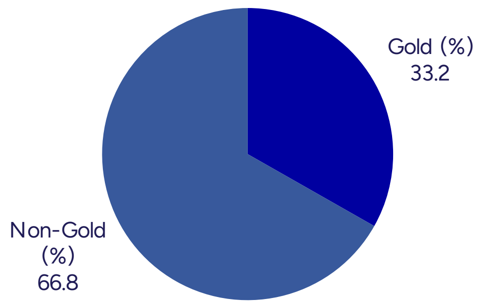


Source: Company, PL

Majority of the agriculture loan book is from South India, i.e., AP, Telangana, Karnataka and Kerala. Considering the impact of inflation and input cost at 7-8%, growth could be at 10-12%. UNBK targets to grow the agri portfolio by 15-16%.

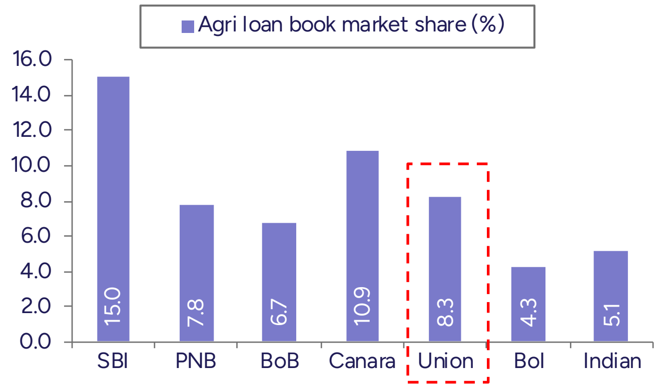
In MP/Karnataka, loans are processed digitally for renewal since land documents have been digitized; this has reduced turnaround time (TAT) substantially. Also, agriculture infrastructure financing is a priority with tractors, operating machines and drones being key focus segments. Asset quality has consistently improved in agri as slippage ratio has declined from 3.6% in FY22 to 1.3% in 9MFY25.

Exhibit 21: Agri. book mix is dominated by non-gold



Source: Company, PL

Exhibit 22: UNBK agri market share at 8.3% (Q3FY25)



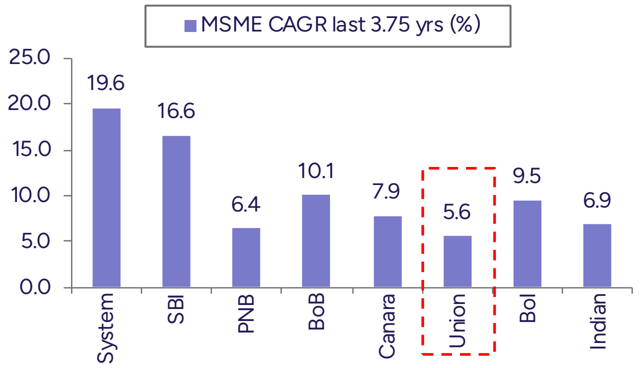
Source: Company, PL, RBI

Agri gold loans form ~33% of agricultural portfolio, which is backed by collateral, while MFI share is negligible. Balance non-agricultural gold loans are classified under MSME and others.

The bank has been very active in gold loans and would continue to focus on the segment due to better yields. Growth of agricultural portfolio over the last 3 years has been strong, and going forward, the bank intends to maintain the share of agriculture exposure.

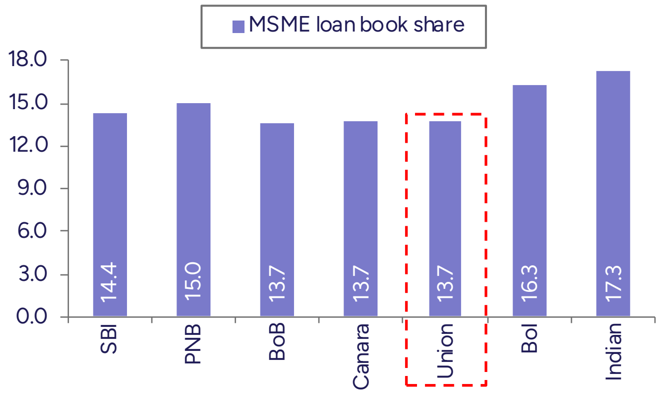
Lastly, growth of MSME loans has been sluggish over the last 6-9 months, but the bank has prioritized growth segments within MSME due to the inherent potential. While UNBK would like to reduce NPA in MSME, stress is unlikely to increase.

Exhibit 23: UNBK CAGR in MSME loans slower than peers



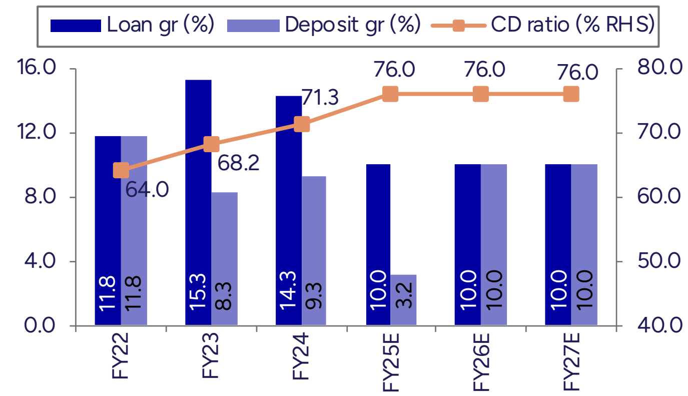
Source: Company, PL

Exhibit 24: MSME book share vs peers (Q3FY25)



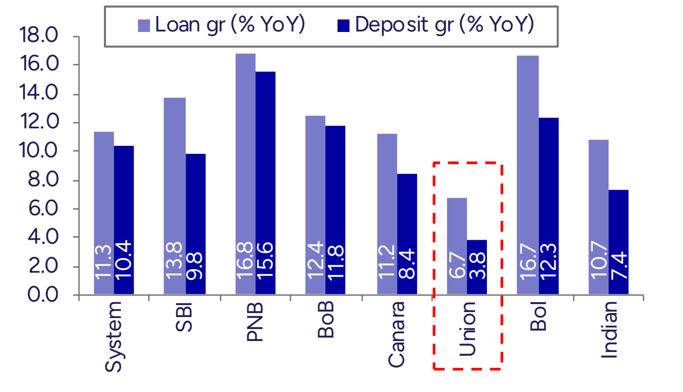
Source: Company, PL

Exhibit 25: UNBK loan growth likely to moderate



Source: Company, PL

Exhibit 26: Loan and deposit growth lower than the system



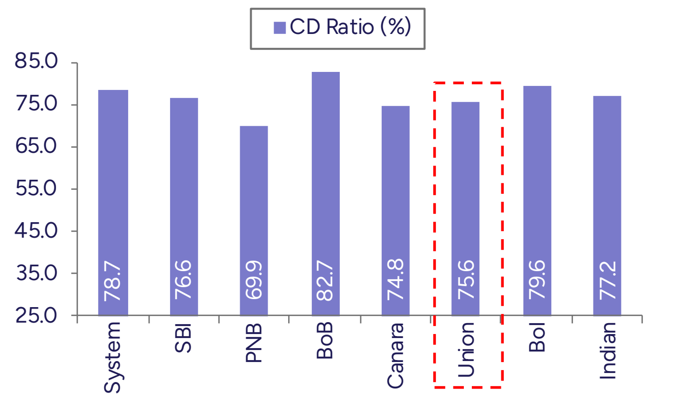
Source: Company, PL

The bank has guided overall loan growth for FY25E at 11-13%, basis the run-rate over 9MFY25, this would be tough to achieve. Given that YTD growth in 9MFY25 was 5.7%, we factor in 10.0% YoY loan growth for FY25 and loan/deposit CAGR of 10.0%/10.0% over FY25-27E given that the gap between loan and deposit growth has shrunk for the system. The current LDR at 75.6% could be maintained.

To counter the challenges faced in retention and growth of CASA, Project LEAP was initiated, which focused on recovery of lost CASA balances. Under this project, the bank employed local staff for maintaining customer engagement to (1) recoup and retain CASA deposits of existing customers and (2) shore up CASA balances from high-value customers in RuSu areas.

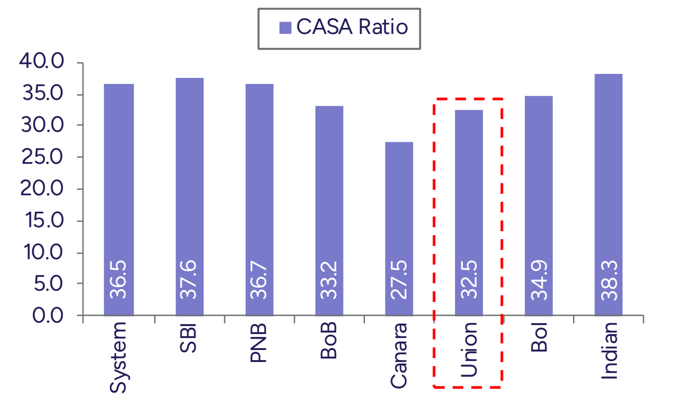
This initiative has helped partly recover lost CASA balances. Further, the bank employed 1,250 RMs to focus exclusively on relationship building and customer retention. Further, UNBK opened 12 new premium RuSu branches in H1FY25. To further improve its deposit franchise and CASA ratio, the bank has been shedding wholesale deposits since Q4FY24; its share reduced from 29% to 26% in Q3FY25.

Exhibit 27: CD ratio for UNBK at ~76% (Q3FY25)



Source: Company, PL

Exhibit 28: CASA for UNBK relatively lower to peers (Q3FY25)

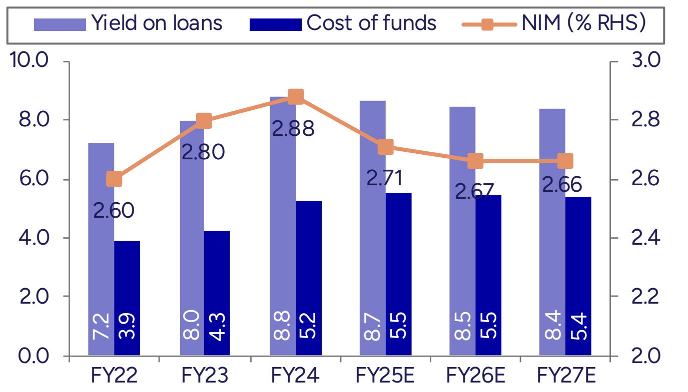


Source: Company, PL

Declining slippages and rate hikes supported margins

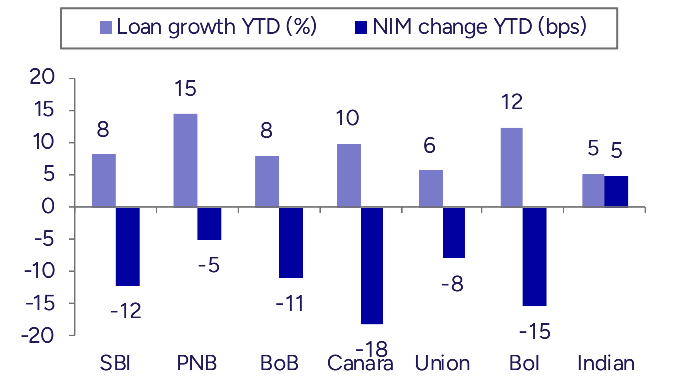
After the merger of Andhra and Corporation Bank with UNBK and waning COVID impact, slippage ratio has been consistently declining since FY22. Over FY22-24, slippage ratio declined from 3.9% to 1.6%, while repo rate increased by 250bps, which resulted in reported NIM expanding by 16bps from 2.94% to 3.10%. As per management, profitability would be preferred over growth as suggested by lesser NIM impact with growth also being softer. While YTD loan growth (9MFY25 over FY24) for UNBK was 5.7%, NIM (calc.) declined by 8bps over FY24 margins which was superior to SBI, BOB, Canara and BOI.

Exhibit 29: UNBK NIM to decline slightly due to rate cuts



Source: Company, PL

Exhibit 30: Focus on profitability over growth

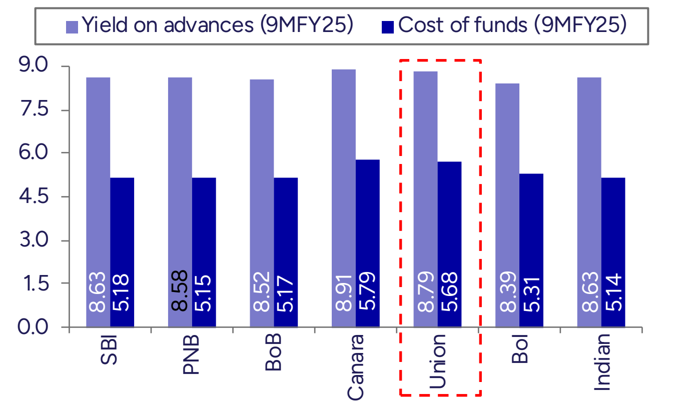


Source: Company, PL

Reported NIM for 9MFY25 reduced to 2.94% from 3.10% in FY24 owing to (1) higher slippages in Q2FY25, (2) re-classification of penal interest to other income (11bps impact), and (3) introduction of the 333 days' special deposit scheme with a higher rate of 7.4%, which led to an increase in deposit cost QoQ.

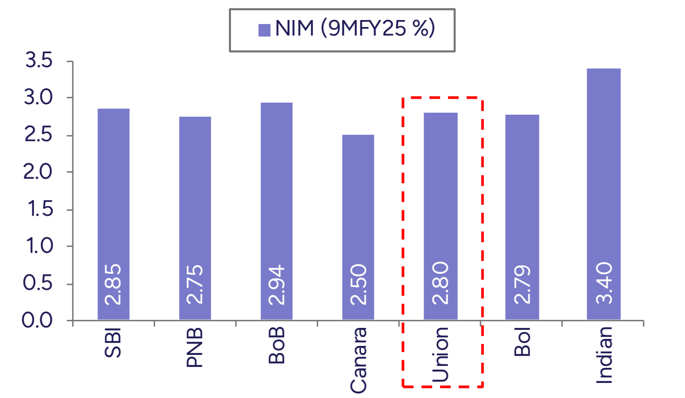
However, the deposit rate in this bucket has been reduced to 7%, suggesting that marginal deposit cost could reduce. Management has guided for NIM to range from 2.8-3.0%; we expect NIM (calc.) to be 2.7% for FY25 which would suggest a decline of ~16bps YoY similar to reported NIM.

Exhibit 31: UNBK has the second highest yield/funding cost



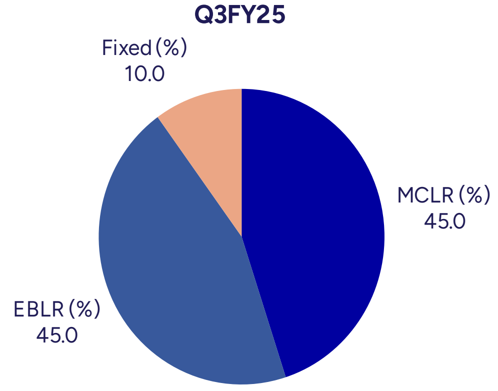
Source: Company, PL

Exhibit 32: UNBK NIM in-line with SBI, BOB, PNB and BOI



Source: Company, PL

Exhibit 33: Floating vs fixed rate loan book mix is 90:10



Source: Company, PL

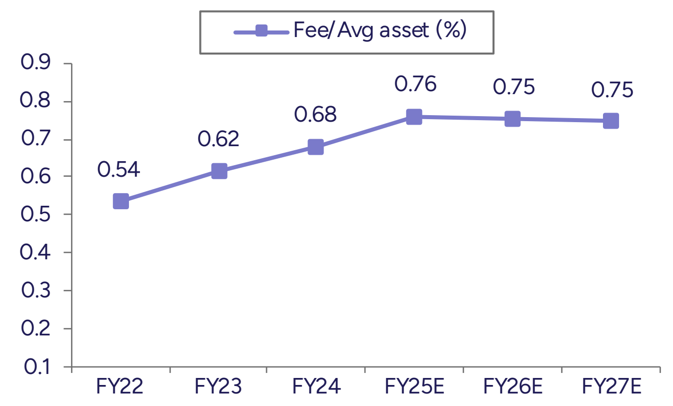
Floating to fixed book mix is 90:10, with floating EBLR and MCLR at 45% each. Over FY22-24, as repo rate was hiked by 250bps, yield on loans increased by 159bps, while deposit cost rose by 117bps.

As repo rate declines over FY25-27E, loan yields would reprice at a faster pace as compared to deposits. Further, we expect NIM (calc.) to contract by 5bps over FY25-27E from 2.71% to 2.66%.

Fee to assets consistently rising over last 4 years

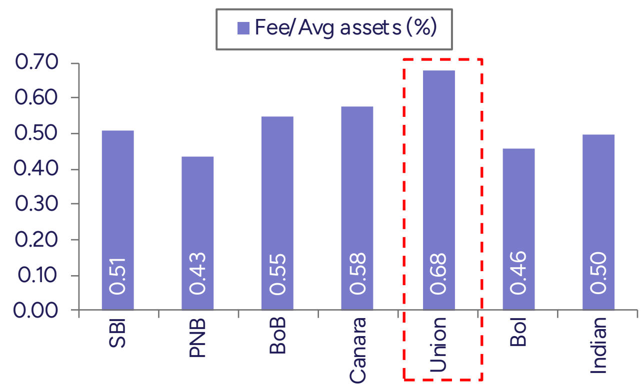
Fee to assets ratio has consistently increased for UNBK from FY21 led by (1) consistent rise in PSLC fees, (2) leveraging of custodian facilities to FPIs, (3) timely renewal and review of term loans, leading to higher processing fees collection, (4) increased focus on transaction banking and TPP income like wealth management, insurance products and credit cards, (5) corporate relationship cells being set up across the country to build relationships with existing corporates and (6) penal interest re-classification from interest income to fees.

Exhibit 34: UNBK fee/avg asset ratio improved consistently



Source: Company, PL

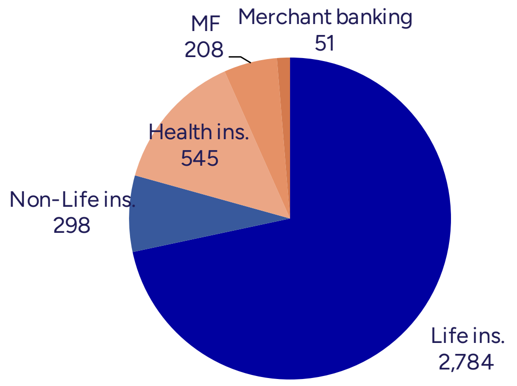
Exhibit 35: UNBK has an superior fee/avg asset ratio (FY24)



Source: Company, PL

Over FY22-24, fee to assets ratio increased from 54bps to 68bps; processing fee, TPP and PSLC income also saw good traction during the period. NII to non-interest income mix has been 70:30, which the bank intends to maintain going forward. Also, to shore up fee income, the bank has created separate cash and wealth management departments. We expect share of other income in total income to be near 31%, over FY25-27E owing to likely NIM compression.

Exhibit 36: Third Party Product mix – Other income (Rs mn)



Source: Company, PL

Exhibit 37: Processing fees contributes 16.5% to fee income

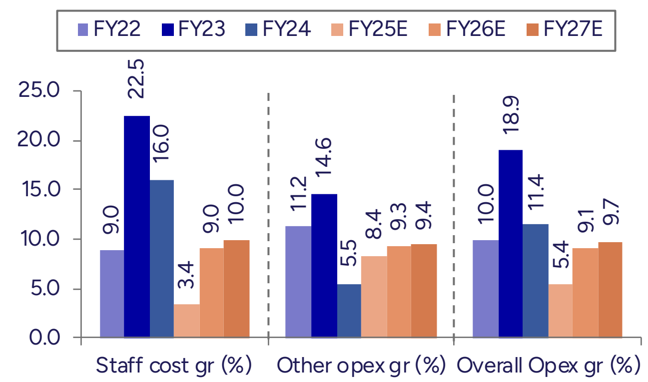
Fee Income mix (%)	FY23	FY24
Processing	15.5	16.5
Forex	12.0	10.1
PSLC	2.2	6.1
TPP	4.7	4.3
Others	65.6	63.1

Source: Company, PL

Opex grew at 15.1% CAGR over FY22-24 compared to loan CAGR of 14.8%. Opex witnessed a sharp growth of 19% YoY in FY23 as staff cost surged by 22.5% YoY due to provisions of Rs5.49bn made in H2FY23 related to wage arrears towards the 12th bipartite wage settlement.

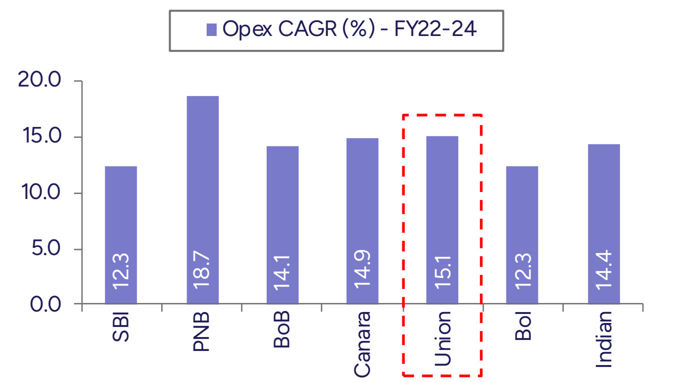
Employee cost growth at 16% YoY was higher in FY24 too, since additional provision of Rs13.34bn was recognized in Q4FY24 relating to pension, gratuity and leave encashment. As per the bank, going forward, staff cost could be higher by Rs3.3bn per quarter; we expect staff cost to grow at a 9.5% CAGR over FY25-27E.

Exhibit 38: UNBK opex growth (YoY) to co-incide with loans



Source: Company, PL

Exhibit 39: Overall opex CAGR for UNBK comparable to peers



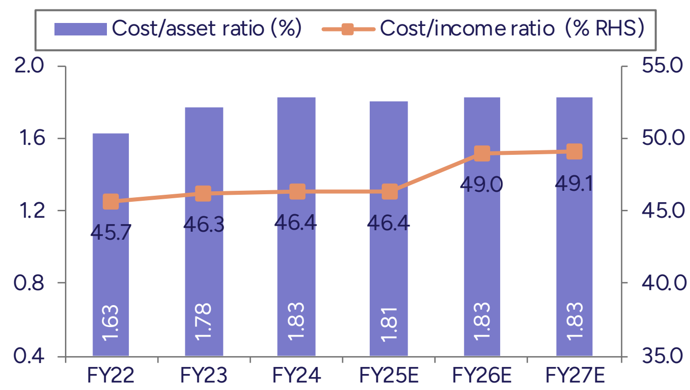
Source: Company, PL

On other opex front, 146 new branches, including 12 focused branches, were added in 9MFY25 to improve CASA deposits. Total 200-250 branches are guided to be opened in FY25.

Digital expenses were Rs5bn in FY22, Rs6.5bn in FY23 and Rs11.5bn in FY24; the bank may spend Rs14bn in FY25 on core IT, analytics, hardware and security. Thus, the bank has made significant investment in technology.

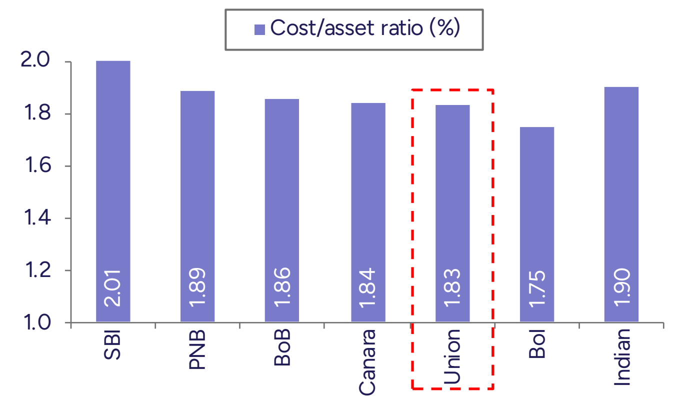
Digital platform is being increasingly leveraged. Renewal of MSME loans of <=Rs1mn and retail loans of <=Rs5mn is done digitally. In Q4FY23, the bank set a target to achieve 50% of loan origination in RAM through digital channels in the next 3 years. For CASA accounts, the bank aims to transition to full STP on digital side over the next 2-3 years. At present, 12-13 journeys have been completed.

Exhibit 40: We see UNBK cost/assets of 1.83% in FY26/27E



Source: Company, PL

Exhibit 41: Cost to assets ratio largely in line with peers (FY24)



Source: Company, PL

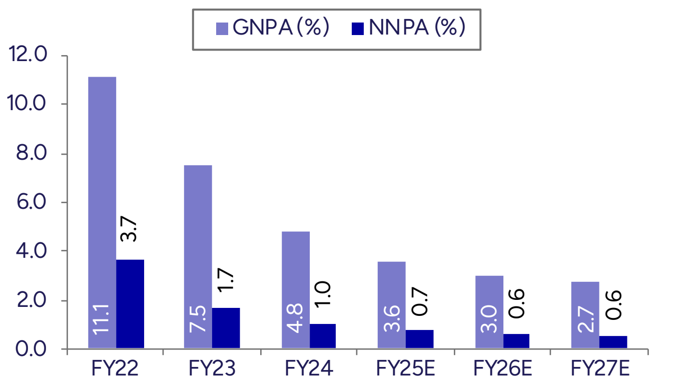
Asset quality improvement in terms of GNPA

Historically, UNBK has seen higher GNPA owing to (1) corporate stress during the asset quality cycle (FY16-18) and (2) merger with Corporation Bank and Andhra Bank, which also led to high stress levels.

Post-merger, GNPA worsened up to 14.95% (Q1FY21). However, over FY22-24, GNPA materially reduced from 11.1% to 4.8% due to reduction in slippage ratio and increase in recoveries. As a result, provisions reduced from 212bps to 83bps.

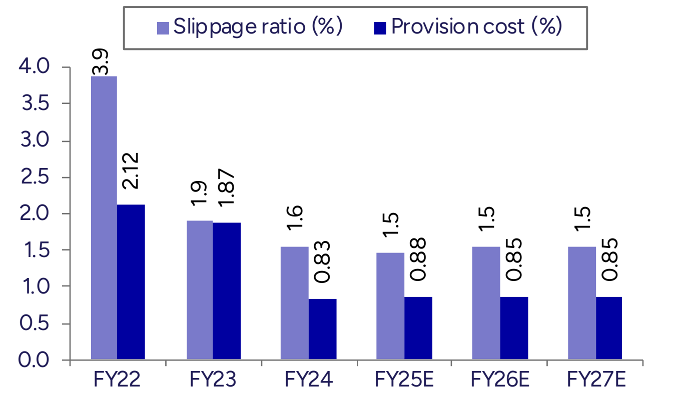
Although GNPA has been declining significantly, it is higher compared to peers, at 3.85%, suggesting further scope for reduction. The bank targeted to bring GNPA below 4.0% by FY25 end (3.85% in 9MFY25). We expect GNPA to reach 3.57% by FY25 end led by lower slippages in 9MFY25 and stable recoveries.

Exhibit 42: Consistently improving asset quality



Source: Company, PL

Exhibit 43: Lower slippages to aid controlled provisions



Source: Company, PL

On overall recoveries (GNPA + write-offs), the bank has guided Rs160bn for FY25 (Rs155bn in FY24 and Rs61.6bn in H1FY25), while slippages may be controlled at Rs126bn (Rs119bn in FY24) amid stress environment; credit costs are guided to remain below 1%. We expect GNPA to reduce over FY25-27E from 3.57% to 2.42%.

Exhibit 44: Marked improvement in UNBK asset quality vs peers

Asset Quality	GNPA (%)					PCR (%)			
	FY22	FY23	FY24	9MFY25	*Decline*	FY22	FY23	FY24	9MFY25
SBI	4.0	2.8	2.2	2.1	*1.9*	75.0	76.4	75.0	74.7
PNB	11.8	8.7	5.7	4.1	*7.7*	62.2	70.8	87.9	90.2
BoB	6.6	3.8	2.9	2.4	*4.2*	75.3	77.2	77.3	76.0
Canara	7.5	5.4	4.2	3.3	*4.2*	66.5	68.9	70.9	74.1
Union	11.1	7.5	4.8	3.9	*7.3*	69.5	78.8	79.1	79.3
BoI	10.0	7.3	5.0	3.7	*6.3*	78.4	78.6	76.5	77.5
Indian	8.5	6.0	4.0	3.3	*5.2*	74.9	85.7	89.5	93.8

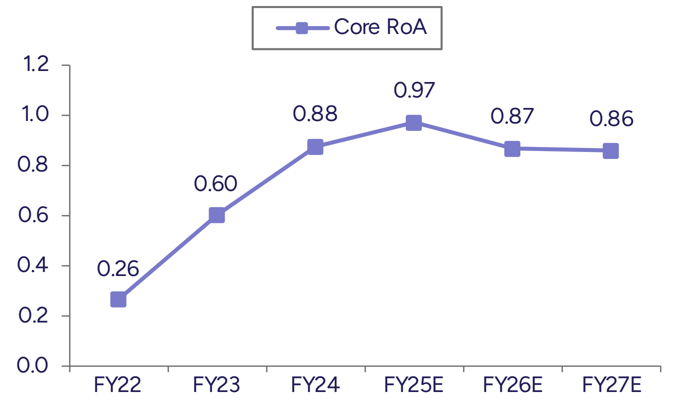
Source: Company, PL

Core RoA/RoE to sustain at 0.9%/11.8% over medium term

Over FY22-24, core RoA improved from 26bps to 88bps driven by (1) NIM (calc) (calc) expansion from 2.60% to 2.88%, (2) increase in fee to assets ratio from 54bps to 68bps, and (3) reduction in provision cost from 212bps to 83bps.

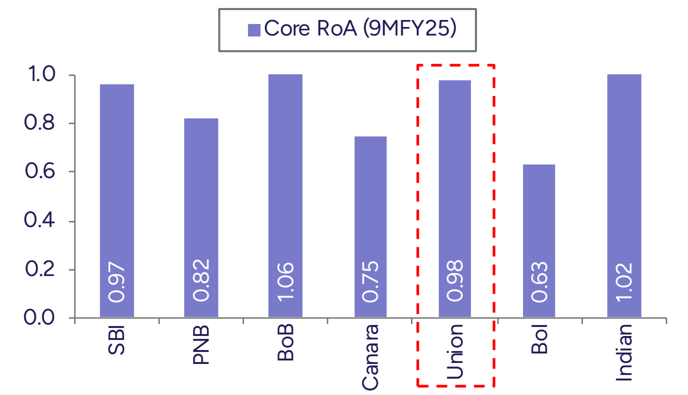
UNBK saw higher tax rate of 31-39% over FY22-24 led by (1) DTA reversal (DTA was created due to accumulated losses post-merger) owing to shift to a lower tax regime and (2) adding back of provisions to PBT while computing tax profit.

Exhibit 45: See core RoA between 85-90bps over FY25-27E



Source: Company, PL

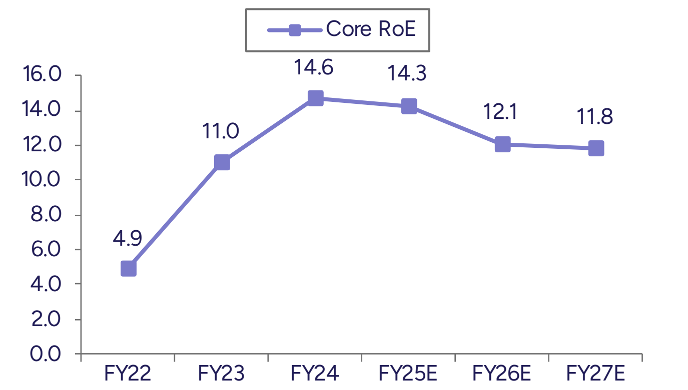
Exhibit 46: UNBK is well positioned amongst peers



Source: Company, PL

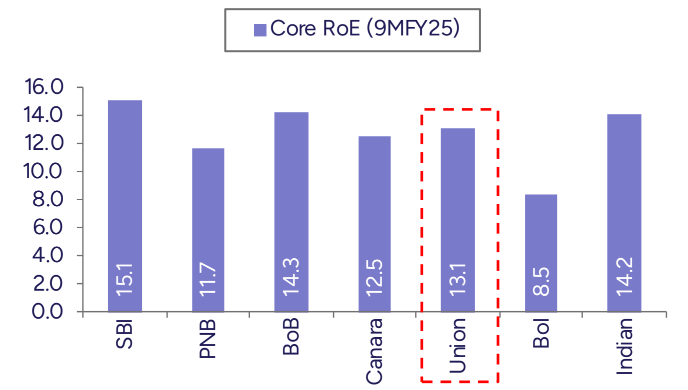
Transition to lower tax regime was completed in FY24, and the bank expects a normal tax rate of 26-27% going forward. Given its NIM & fee income profile, leverage of 12-13x and tax rate of ~27%, we expect UNBK to sustain a core RoA/RoE of ~0.9/~12.0% over FY25-27E.

Exhibit 47: Effective use of capital leading to higher core RoE



Source: Company, PL

Exhibit 48: UNBK return ratios are competitive to peers



Source: Company, PL

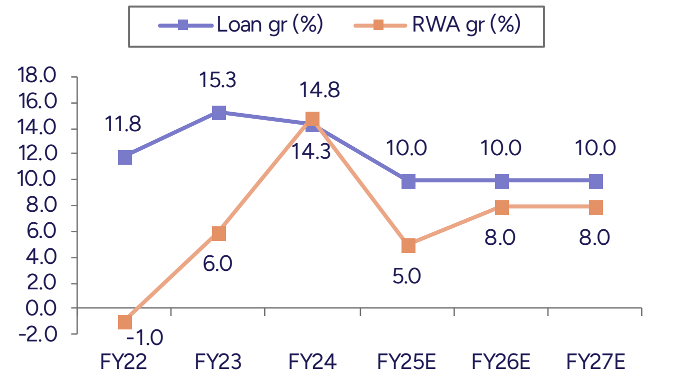
Strong capital adequacy; among best-in-class CET-1

UNBK has best-in-class CRAR with CET-1 of ~14%. In Q2FY24 (Aug'23), the bank raised QIP of Rs50bn at Rs86.6 per share with BVPS at Rs118.6 (Jun'23). In Q4FY24 it raised Rs30bn of equity at Rs135.7 p.s., which would be utilized towards digitalization, branch expansion, establishment expenses and growth.

Capital utilization has also been conservative for UNBK suggesting lower risk taken which may protect future asset quality. Gap between loan CAGR and RWA CAGR is wider for UNBK to peers. Over Q4FY22 to Q3FY25, for UNBK loan CAGR was lowest at 12.8% although RWA CAGR was much lower at 8.2%.

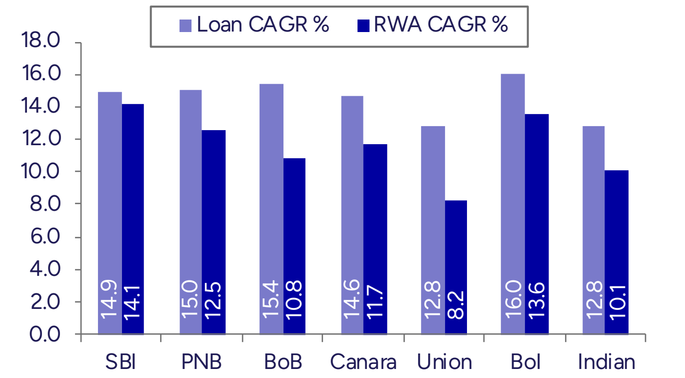
Adjusting for equity raise over FY22 and FY24, CET-1 accretion has been healthier for UNBK due to consistent reduction in DTA and normalization of pension expense after FY22. We expect CET-1 in FY25 to be between 14.5-15.0%.

Exhibit 49: UNBK RWA growth lower to loan growth



Source: Company, PL

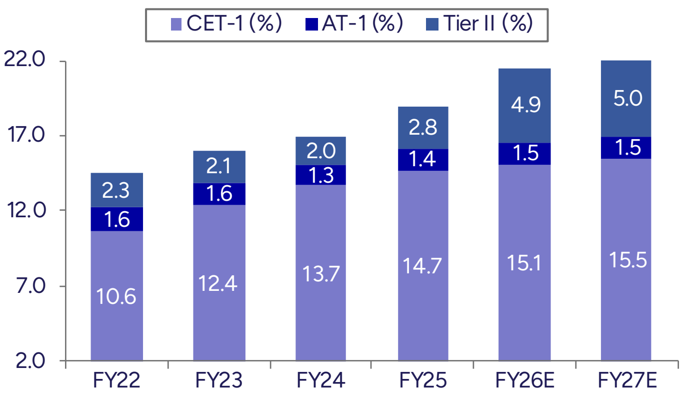
Exhibit 50: Loan vs RWA CAGR over Q4FY22 to Q3FY25



Source: Company, PL

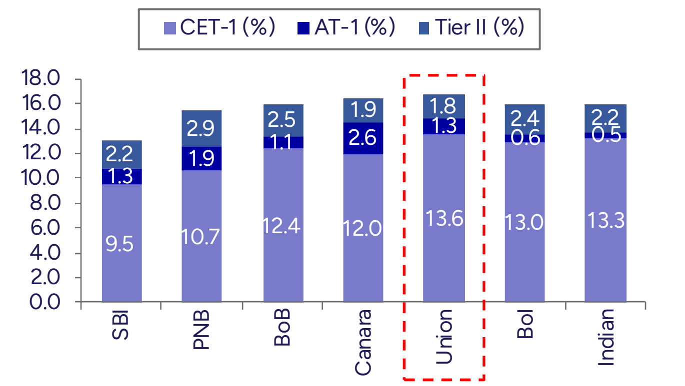
The Board has approved to raise capital of Rs100bn, of which Rs60bn could be equity. Capital would be raised only for increased advances opportunity; in our view, capital may be required only if sustainable loan growth would be more than 14% YoY, which seems unlikely in the medium term.

Exhibit 51: UNBK is adequately capitalized



Source: Company, PL

Exhibit 52: UNBK has the highest CET-1 as at Dec'24



Source: Company, PL

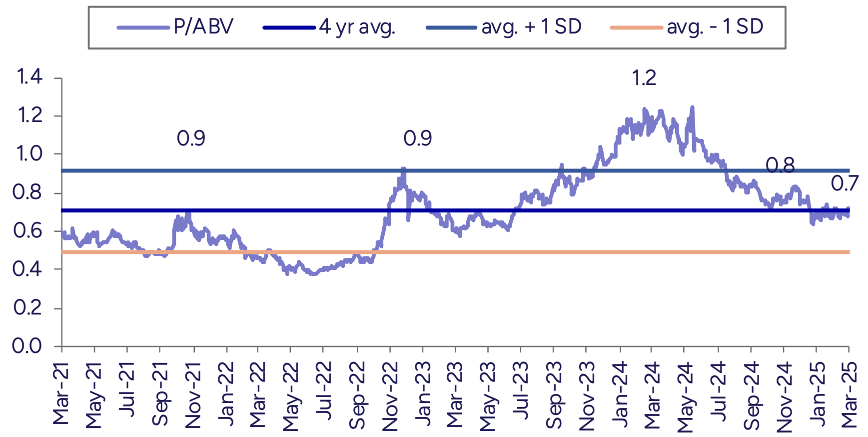
Valuation & Risks

Valuation

Over FY25-27E, we expect loan growth of 10%, which would be largely driven by RAM. NIM could be ~2.70% with fees to average assets of ~75bps. As all the wage revision expenses have been provided for, we do not expect any negative surprises in opex and are factoring opex CAGR of 9.4% over FY25-27E.

Owing to stable asset quality and adequate PCR of 80%, we envisage provision costs of ~85bps over FY25–27E (vs 88bps in FY25E), however, GNPA reduction could be 85bps over FY25 to FY27E. Given these balance sheet and profitability metrics, core RoA/RoE could be 0.9%/12% over the medium term. Hence, we assign multiple of 0.9x on Mar'27 ABV to arrive at a TP of Rs140.

Exhibit 53: One-year forward P/ABV of UNBK trades at 0.7x



Source: Company, PL

Key Risks

- Salary of PSU bank staff is governed by the IBA. Any wage increases could increase staff costs.
- As PSU banks have a higher PSL exposure, especially due to agri loans, increase in systemic stress in agri could impact asset quality.
- While ECL implementation could be staggered, which may cushion PAT, higher-than-expected provisions due to ECL might impact earnings.

Experienced Management Team

Exhibit 54: Management team details

Name	Designation	Brief Profile
Ms. A. Manimekhalai	MD & CEO	She is a seasoned Banker with experience of more than 3 decades. She started her career in erstwhile Vijaya Bank as an Officer in 1988 and rose successively as Branch Head, Regional Head and Functional Head of various Departments at Corporate Office. She was instrumental in devising & implementation of strategic policies covering core areas like strategic planning, setting organizational goals, growth strategies, action plans, compliance, internal control, etc. Ms. Manimekhalai is an MBA (Marketing) from Bangalore University, and a Diploma in HRM from NMIMS, Mumbai. Prior to joining Union Bank of India, she was an Executive Director at Canara Bank, wherein she oversaw strategic planning, credit & related matters, inspection, marketing and financial inclusion, State Level Lead Bank responsibilities and the functioning of Regional Rural Banks. She played a pivotal role in effecting successful amalgamation of Canara Bank and Syndicate Bank. She has extensive experience as Director on the Board of five other companies namely Canbank Factors, Canbank Computer Services, Canara HSBC OBC Life Insurance, GIC, IIFCL & Trustee, Canara Robeco Asset Management.
Mr. Nitesh Ranjan	Executive Director	He is Executive Director of Union Bank of India since 2021. He is leading digital transformation towards superior customer experience, enhanced employee engagement and stronger balance sheet. While driving business outcome, he is focused on continuous strengthening of risk and compliance standards in the Bank. He is a member of the Board of Directors of NPCI, SUD Life Insurance Company and also member of IBA Steering Committee on PSB Reforms. He is a post-graduate in Economics & has completed Leadership Development Programme of IIM Bangalore.
Mr. S. Ramasubramanian	Executive Director	He assumed office as Executive Director of Union Bank of India w.e.f. from November 21, 2022. Prior to joining Union Bank of India, he held the position of Chief GM at Canara Bank. He has over 26 years of experience in various facets of Banking including Corporate Credit, MSME, Retail Credit, International Credit and FOREX. He is a Science graduate and a Certified Associate of Indian Institute of Bankers (CAIIB). Throughout his banking career he has led effectively under both operations and administrative areas. He has executed leadership roles across various segments namely; Prime Corporate Credit Wing, Large Corporate, Mid Corporate Branches including a stint at Hong Kong Branch of Canara Bank.
Mr. Sanjay Rudra	Executive Director	Prior to joining Union Bank of India, he was GM and CRO of Bank of Maharashtra. He has over three decades of experience to his credit in various facets of Banking such as Credit, Priority, MSME and Integrated Risk Department. He was also the incharge of L&D Vertical and had an additional charge of Development Testing of Digital Lending. He holds Post Graduate degree in Physics and a Diploma in Financial Management from Welingkar Institute. He is an associate member of IIBF. He undergone the Leadership Development Program from IIM Bangalore, conducted by FSIB
Mr. Pankaj Dwivedi	Executive Director	He has completed Masters in Business Administration from Symbiosis Institute of Management Studies, Pune and is a Certified Associate from Indian Institute of Bankers. He has completed the Executive Certificate Programme in Applied Financial Risk Management from IIM, Raipur and has also completed the Leadership Development Programme of IIM Bangalore, curated by the Banks Board Bureau in consultation with IBA and Egon Zehnder International Pvt. Ltd. He has handled a variety of functions at Head Office such as Priority Sector, Retail Lending, Law & Recovery, Treasury, Corporate Credit, Board Secretariat, Planning & Development, Foreign Exchange, Co-Lending Cell, etc. He is also a trustee on the Board of Trustees of IIFCL Mutual Fund.
Mr. Avinash Prabhu	Chief Financial Officer	He assumed office as CFO w.e.f. November 20, 2023. He is a CA and a seasoned finance professional with more than 25 years of experience. Earlier, he has worked as a CFO for Deutsche Bank, India handling Finance Reporting (Group, Regulatory) Business and Infrastructure Finance, ALM, Tax, Transformation and Financial Planning and Strategy. Prior to that, he has also served as CFO India for Credit Agricole CIB and as a Manager with Arthur Andersen.

Source: Company, PL

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Int. Earned from Adv.	7,19,710	7,91,469	8,50,892	9,30,323
Int. Earned from invt.	2,24,674	2,32,921	2,40,785	2,56,619
Others	4,846	4,040	4,400	4,400
Total Interest Income	9,97,780	10,77,875	11,45,968	12,43,572
Interest Expenses	6,32,076	7,07,113	7,51,910	8,09,930
Net Interest Income	**3,65,704**	**3,70,763**	**3,94,058**	**4,33,642**
Growth(%)	*11.6*	*1.4*	*6.3*	*10.0*
Non Interest Income	1,60,802	1,84,606	1,79,282	1,94,950
Net Total Income	5,26,506	5,55,369	5,73,341	6,28,592
Growth(%)	*21.5*	*9.0*	*5.0*	*8.5*
Employee Expenses	1,43,772	1,48,639	1,62,052	1,78,207
Other Expenses	1,00,628	1,09,050	1,19,148	1,30,384
Operating Expenses	2,44,400	2,57,689	2,81,200	3,08,591
Operating Profit	**2,82,106**	**2,97,679**	**2,92,140**	**3,20,001**
Growth(%)	*10.8*	*5.5*	*(1.9)*	*9.5*
NPA Provision	63,873	74,373	79,659	87,613
Total Provisions	67,802	80,022	85,733	94,246
PBT	**2,14,304**	**2,17,657**	**2,06,407**	**2,25,755**
Tax Provision	77,821	55,202	55,730	60,954
Effective tax rate (%)	*36.3*	*25.4*	*27.0*	*27.0*
PAT	**1,36,483**	**1,62,455**	**1,50,677**	**1,64,801**
Growth(%)	*61.8*	*19.0*	*(7.3)*	*9.4*

Balance Sheet (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Face value	10	10	10	10
No. of equity shares	7,634	7,634	7,634	7,634
Equity	76,336	76,336	76,336	76,336
Networth	9,69,690	11,15,496	12,36,038	13,67,879
Growth(%)	*23.8*	*15.0*	*10.8*	*10.7*
Adj. Networth to NNPAs	89,899	70,477	64,963	64,307
Deposits	1,22,15,284	1,26,04,020	1,38,62,398	1,52,46,410
Growth(%)	*9.3*	*3.2*	*10.0*	*10.0*
CASA Deposits	41,01,337	41,18,717	45,32,327	49,87,591
% of total deposits	*33.6*	*32.7*	*32.7*	*32.7*
Total Liabilities	**1,39,19,576**	**1,46,13,584**	**1,60,93,466**	**1,77,24,157**
Net Advances	87,07,761	95,79,055	1,05,35,422	1,15,87,272
Growth(%)	*14.3*	*10.0*	*10.0*	*10.0*
Investments	33,79,035	35,29,126	38,81,471	42,68,995
Total Assets	**1,39,19,576**	**1,46,13,584**	**1,60,93,466**	**1,77,24,157**
Growth (%)	*8.7*	*5.0*	*10.1*	*10.1*

Asset Quality

Y/e Mar	FY24	FY25E	FY26E	FY27E
Gross NPAs (Rs m)	4,30,979	3,51,611	3,24,433	3,21,208
Net NPAs (Rs m)	89,899	70,477	64,963	64,307
Gr. NPAs to Gross Adv.(%)	*4.8*	*3.6*	*3.0*	*2.7*
Net NPAs to Net Adv. (%)	*1.0*	*0.7*	*0.6*	*0.6*
NPA Coverage %	*79.1*	*80.0*	*80.0*	*80.0*

Profitability (%)

Y/e Mar	FY24	FY25E	FY26E	FY27E
NIM	2.9	2.7	2.7	2.7
RoAA	1.0	1.1	1.0	1.0
RoAE	16.7	16.5	13.5	13.2
Tier I	15.0	16.1	16.5	16.9
CRAR	17.0	18.9	21.4	21.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Interest Income	2,63,501	2,63,644	2,67,084	2,69,579
Interest Expenses	1,69,135	1,69,523	1,76,612	1,77,177
Net Interest Income	**94,366**	**94,121**	**90,473**	**92,403**
YoY growth (%)	*14.4*	*6.5*	*(0.9)*	*0.8*
CEB	20,130	28,680	25,630	23,650
Treasury	-	-	-	-
Non Interest Income	47,074	45,092	53,280	44,166
Total Income	**1,41,441**	**1,39,213**	**1,43,753**	**1,36,568**
Employee Expenses	48,291	35,680	35,627	34,678
Other expenses	27,820	25,680	26,999	26,972
Operating Expenses	76,111	61,360	62,625	61,650
Operating Profit	**65,329**	**77,853**	**81,128**	**74,918**
YoY growth (%)	*(4.3)*	*8.4*	*12.4*	*2.9*
Core Operating Profits	53,905	72,951	69,697	66,703
NPA Provision	14,850	16,510	25,044	14,773
Others Provisions	12,596	27,558	17,122	15,991
Total Provisions	12,596	27,558	17,122	15,991
Profit Before Tax	**52,734**	**50,295**	**64,006**	**58,928**
Tax	19,628	13,507	16,808	12,891
PAT	**33,106**	**36,789**	**47,197**	**46,036**
YoY growth (%)	*19.0*	*13.7*	*34.4*	*28.2*
Deposits	**1,22,15,284**	**1,22,41,914**	**1,24,19,474**	**1,21,65,621**
YoY growth (%)	*9.3*	*8.5*	*9.2*	*3.8*
Advances	**87,07,761**	**87,86,929**	**89,70,919**	**92,01,782**
YoY growth (%)	*14.3*	*14.0*	*11.6*	*6.7*

Key Ratios

Y/e Mar	FY24	FY25E	FY26E	FY27E
CMP (Rs)	120	120	120	120
EPS (Rs)	17.9	21.3	19.7	21.6
Book Value (Rs)	120	139	155	172
Adj. BV (Rs)	108	130	146	163
P/E (x)	6.7	5.6	6.1	5.5
P/BV (x)	1.0	0.9	0.8	0.7
P/ABV (x)	1.1	0.9	0.8	0.7
DPS (Rs)	3.6	4.3	3.9	4.3
Dividend Payout Ratio (%)	*20.1*	*20.0*	*20.0*	*20.0*
Dividend Yield (%)	*3.0*	*3.6*	*3.3*	*3.6*

Efficiency

Y/e Mar	FY24	FY25E	FY26E	FY27E
Cost-Income Ratio (%)	*46.4*	*46.4*	*49.0*	*49.1*
C-D Ratio (%)	*71.3*	*76.0*	*76.0*	*76.0*
Business per Emp. (Rs m)	276	288	316	343
Profit per Emp. (Rs lacs)	18	21	20	21
Business per Branch (Rs m)	2,471	2,617	2,875	3,158
Profit per Branch (Rs m)	16	19	18	19

Du-Pont

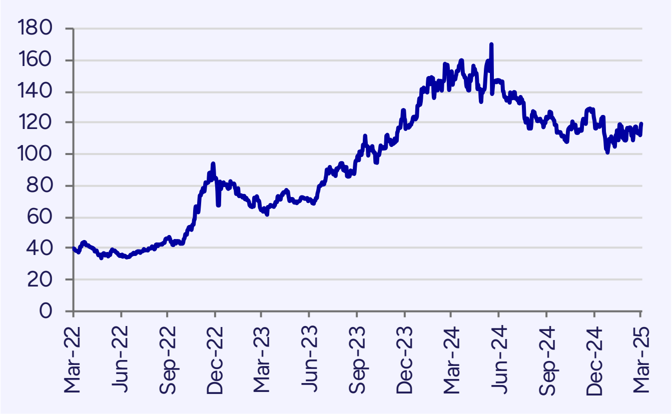
Y/e Mar	FY24	FY25E	FY26E	FY27E
NII	2.74	2.60	2.57	2.56
Total Income	3.94	3.89	3.73	3.72
Operating Expenses	1.83	1.81	1.83	1.83
PPoP	2.11	2.09	1.90	1.89
Total provisions	0.51	0.56	0.56	0.56
RoAA	1.02	1.14	0.98	0.97
RoAE	16.69	16.47	13.46	13.23

Source: Company Data, PL Research

Notes

Notes

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,900	1,705
2	Axis Bank	BUY	1,350	1,038
3	Bank of Baroda	BUY	285	222
4	Can Fin Homes	BUY	860	708
5	City Union Bank	BUY	200	171
6	DCB Bank	BUY	155	117
7	Federal Bank	BUY	210	180
8	HDFC Asset Management Company	BUY	4,450	3,763
9	HDFC Bank	BUY	1,950	1,666
10	ICICI Bank	BUY	1,550	1,209
11	IndusInd Bank	Hold	1,000	901
12	Kotak Mahindra Bank	BUY	2,230	1,759
13	LIC Housing Finance	BUY	650	558
14	Nippon Life India Asset Management	BUY	725	653
15	State Bank of India	BUY	900	754
16	UTI Asset Management Company	BUY	1,320	1,296

PL's Recommendation Nomenclature

Buy	:	>15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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