

20 July 2025

Union Bank of India

Weak quarter, expected to generate ~14% RoE through FY26, FY27; Buy

Lower margins and weaker non-interest income led to Union Bank's operating profits degrowth. Yet, its C/I was below 50%, suggesting decent overall operating performance. Headline asset quality and PCR improved. Key positives were: 1) modest slippages (1% of loans), 2) lower stress formation (SMA at 0.5% of loans), 3) decent traction in the retail/MSME books (up 5.7%/5.9% q/q) and 4) 15%+ RoE now for 10 straight quarters. We expect the bank to deliver a sustainable, ~14%, RoE in the medium term. We retain our Buy rating, with a 12-mth TP of Rs168, 0.9x P/ABV on the FY27e book.

Asset quality continues to improve. Slippages were Rs23.5bn (1% of loans), lower than the previous quarter and our estimate. They were range-bound across segments with notable improvement in agri. The SMA book was moderate at 52bps of loans, suggesting lower stress build-up. The standard restructured book was 0.9% of loans (down 3bps q/q). With most of the stress already delinquent, and a low stress pipeline, slippages (medium term) are likely to be below 1.5%. Headline GNPA is expected to trend downward.

Credit growth to be in line with system credit growth. The loan book was Rs9.5trn (up 7.7% y/y), with strong growth in retail and MSME segments. With a cleaner balance sheet, adequate capital and strong deposit base, we expect credit growth for the bank to mirror system credit growth in the medium term.

Strong Treasury, modest provisions to keep RoA above 1%. High Treasury gains (falling G-Secs) and strong recovery from the write-off pool combined with modest credit costs (less than 1%) would lead to robust medium-term earnings. We expect ~1.1% RoA and ~14% RoE through FY26/27.

Valuation. Our Rs168 TP stems from the two-stage DDM model. This implies a ~0.9x P/ABV on the FY27e book. **Risks:** Lumpy slippages in the corporate book; less-than-expected credit growth.

Key financials (YE Mar) (Rs bn)	FY23	FY24	FY25	FY26e	FY27e
Net interest income	328	366	372	385	440
Pre-provisioning profit	255	282	311	318	368
PAT	84	136	180	178	192
EPS (Rs)	12.3	17.9	23.6	23.3	25.1
NIM (%)	2.9	3.0	2.8	2.7	2.8
Cost-Income (%)	46.3	46.4	45.5	46.8	45.1
RoE (%)	11.3	15.6	17.1	14.8	14.2
RoA (%)	0.7	1.0	1.2	1.1	1.1
Advances growth (%)	15.3	14.3	9.5	11.0	12.0
GNPA (%)	7.5	4.8	3.6	3.2	2.9
CRAR (%)	16.0	17.0	18.0	18.3	18.1
P / E (x)	11.8	8.2	6.2	6.3	5.8
P / BV (x)	1.3	1.1	1.0	0.9	0.8
P / ABV (x)	1.4	1.2	1.0	0.9	0.8

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.168

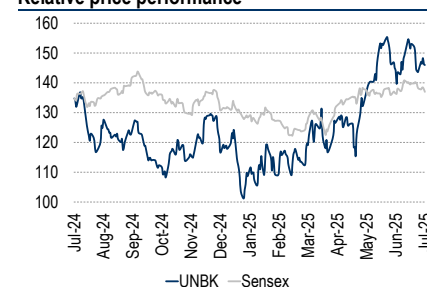
Share Price: Rs.146

Key data	UNBK IN / UNBK.BO
52-week high / low	Rs.159 / 101
Sensex / Nifty	81,758 / 24,968
Market cap	Rs.1,117bn
Shares outstanding	7634m

Shareholding pattern (%)	Jun'25	Mar'25	Dec'24
Promoters	74.8	74.8	74.8
- of which, Pledged	-	-	-
Free float	25.2	25.2	25.2
- Foreign institutions	7.8	7.1	6.5
- Domestic institutions	11.9	11.6	11.9
- Public	5.6	6.5	6.9

Estimates revision (%)	FY26e	FY27e
NII	(0.8)	0.0
PPoP	(3.7)	(4.6)
PAT	(0.0)	(6.5)

Relative price performance



Source: Bloomberg

Yuvraj Choudhary, CFA
Research Analyst

Kaitav Shah, CFA
Research Analyst

Subhanshi Rathi
Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Net interest income	328	366	372	385	440
<i>NII growth (%)</i>	17.9	11.6	1.8	3.4	14.3
Non-interest income	146	161	198	213	231
Income	474	527	570	598	671
<i>Income growth (%)</i>	17.6	11.1	8.3	4.9	12.2
Operating expenses	219	244	259	280	303
PPoP	255	282	311	318	368
<i>PPoP growth (%)</i>	16.4	10.8	10.2	2.3	15.8
Provisions	133	68	76	80	112
PBT	121	214	235	238	256
Tax	37	78	55	60	65
PAT	84	136	180	178	192
<i>PAT growth (%)</i>	61	62	32	-1	8
EPS (Rs)	12.3	17.9	23.6	23.3	25.1
DPS (Rs)	3.0	3.6	4.8	4.7	5.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	68	76	76	76	76
Reserves & surplus	715	893	1,053	1,196	1,349
Deposits	11,177	12,215	13,097	14,276	15,704
Borrowings	431	269	273	287	301
Other Liabilities & Prov.	416	465	498	548	611
Total liabilities	12,808	13,920	14,999	16,383	18,042
Advances	7,618	8,708	9,535	10,584	11,854
Investments	3,393	3,379	3,544	3,721	3,907
Cash & bank balance	1,122	1,193	1,313	1,445	1,618
Fixed & other assets	675	640	606	634	662
Total assets	12,808	13,920	14,999	16,383	18,042
No. of shares (m)	6,835	7,634	7,634	7,634	7,634
<i>Deposits growth (%)</i>	8.3	9.3	7.2	9.0	10.0
<i>Advances growth (%)</i>	15.3	14.3	9.5	11.0	12.0

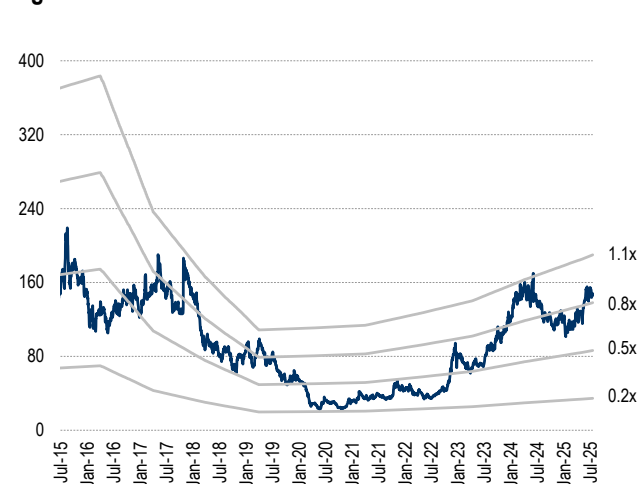
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
NIM	2.9	3.0	2.8	2.7	2.8
Other inc. / total inc.	30.9	30.5	34.7	35.7	34.5
Cost-income	46.3	46.4	45.5	46.8	45.1
DPS (Rs)	3.0	3.6	4.8	4.7	5.0
Credit-deposit	68.2	71.3	72.8	74.1	75.5
Investment-deposit	30.4	27.7	27.1	26.1	24.9
Gross NPA	7.5	4.8	3.6	3.2	2.9
Net NPA	1.7	1.0	0.6	0.6	0.5
Provision coverage	78.8	79.1	83.1	82.0	82.0
BV (Rs)	114.6	127.0	148.0	166.6	186.7
Adj. BV (Rs)	101.4	118.8	142.5	161.0	180.9
CRAR (%)	16.0	17.0	18.0	18.3	18.1
- Tier 1	13.9	15.0	16.2	16.7	16.6
RoE	11.3	15.6	17.1	14.8	14.2
RoA	0.7	1.0	1.2	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)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Interest income	264	264	267	270	277	273
Interest expense	169	170	177	177	182	182
NII	94	94	90	92	95	91
Y/Y growth, %	14.4	6.5	-0.9	0.8	0.8	-3.2
Non-interest income	47	45	53	44	56	45
Total income	141	139	144	137	151	136
Y/Y growth, %	4.6	9.2	12.1	5.5	6.6	-2.3
Operating expenses	76	61	63	62	74	67
Of which, staff cost	48	36	36	35	41	39
PPoP	65	78	81	75	77	69
Y/Y growth, %	-4.3	8.4	12.4	2.9	17.9	-11.3
Total provisions	13	28	17	16	15	17
PBT	53	50	64	59	62	52
Tax	20	14	17	13	12	11
PAT	33	37	47	46	50	41
Y/Y growth, %	19.0	13.7	34.4	28.2	50.6	11.9

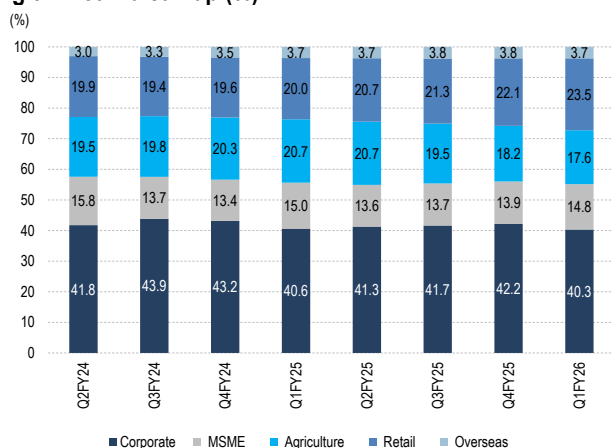
Source: Company, Anand Rath Research

Fig 8 – Balance sheet

(Rs bn)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Equity capital	76	76	76	76	76	76
Reserves & Surplus	893	947	994	1,039	1,053	1,095
Deposits	12,215	12,242	12,419	12,166	13,097	12,399
Borrowings	269	255	258	325	273	677
Other liabilities	465	504	382	460	498	572
Liabilities	13,920	14,025	14,130	14,066	14,999	14,819
Deposits y/y growth	9.3	8.5	9.2	3.8	7.2	1.3
Deposits q/q growth	4.2	0.2	1.5	-2.0	7.7	-5.3
Cash and cash balances	1,193	1,156	1,045	935	1,313	1,393
Advances	8,708	8,787	8,971	9,202	9,535	9,461
Investments	3,379	3,426	3,534	3,399	3,544	3,406
Other assets	640	656	580	530	606	560
Assets	13,920	14,025	14,130	14,066	14,999	14,819
Advances y/y growth	14.3	14.0	11.6	6.7	9.5	7.7
Advances q/q growth	1.0	0.9	2.1	2.6	3.6	-0.8

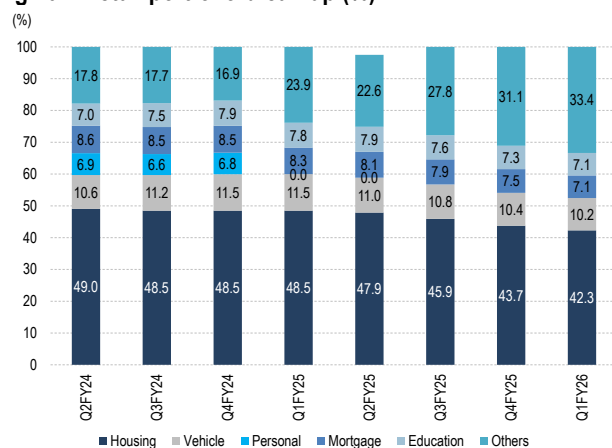
Source: Company, Anand Rath Research

Fig 9 – Loan break-up (%)



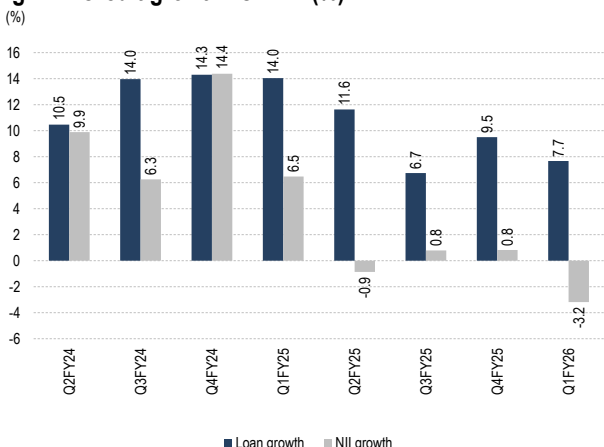
Source: Company, Anand Rathi Research

Fig 10 – Retail portfolio break-up (%)



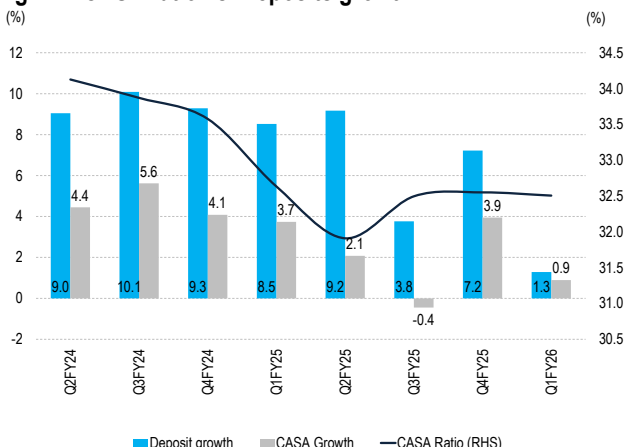
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM (%)



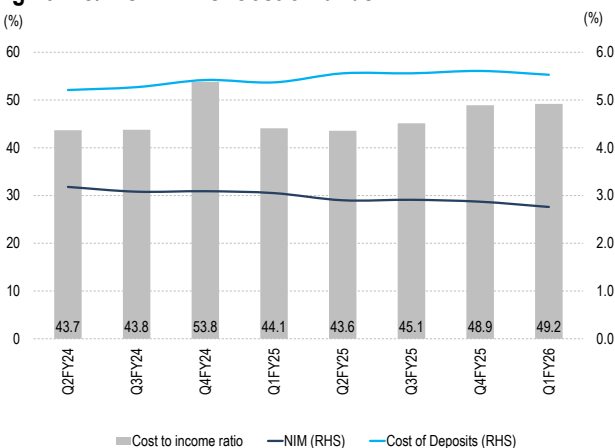
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposits growth



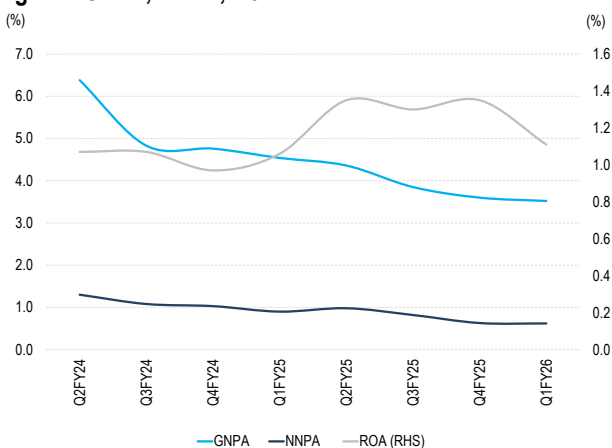
Source: Company, Anand Rathi Research

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 Rs168 is based on the two-stage DDM model. This implies a ~0.9x P/ABV on the FY27e book.

Fig 15 – Change in estimates

(Rs bn)	FY26e			FY27e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	385	388	(0.8)	440	440	0.0
Pre-provisioning profit)	318	330	(3.7)	368	386	(4.6)
PAT	178	178	(0.0)	192	205	(6.5)

Source: Anand Rathi Research

Fig 16 – du Pont analysis

(%)	FY23	FY24	FY25	FY26e	FY27e
Interest Income / Assets	6.5	7.5	7.5	7.3	7.3
Interest Expense / Assets	3.9	4.7	4.9	4.9	4.8
Net interest income / Assets	2.7	2.7	2.6	2.5	2.6
Non-interest income / Assets	1.2	1.2	1.4	1.4	1.3
Net revenues / Assets	3.8	3.9	3.9	3.8	3.9
Operating expense / Assets	1.8	1.8	1.8	1.8	1.8
PPoP / Assets	2.1	2.1	2.2	2.0	2.1
Provision / Assets	1.1	0.5	0.5	0.5	0.7
Taxes / Assets	0.3	0.6	0.4	0.4	0.4
RoA	0.7	1.0	1.2	1.1	1.1
RoAE	11.3	15.6	17.1	14.8	14.2

Source: Company, Anand Rathi Research

Risks

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

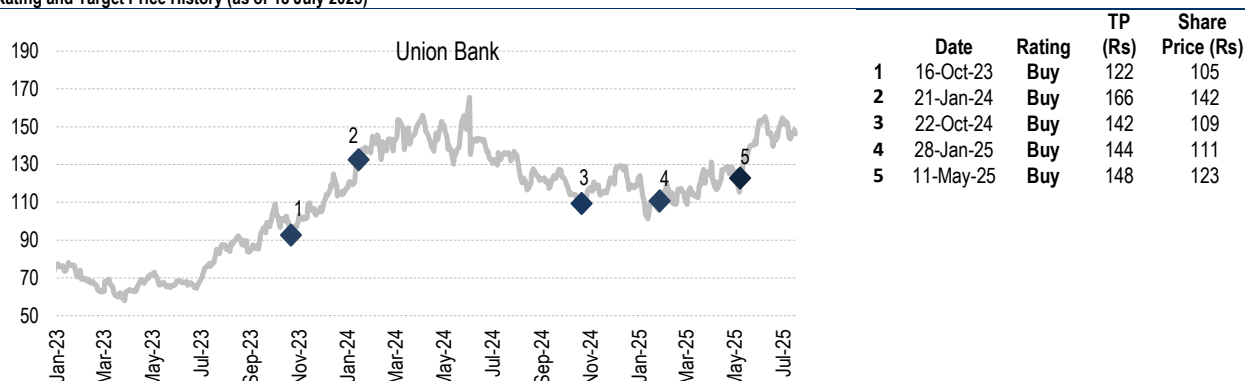
Appendix

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ARSSBL registered address: Express Zone, A Wing, 10th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
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