



# Union Bank of India

BSE SENSEX 57,145 S&P CNX 17,016

CMP: INR42

TP: INR50 (+18%)

Buy



## Stock Info

Bloomberg	UNBK IN
Equity Shares (m)	6,835
M.Cap.(INRb)/(USDb)	289.8 / 3.6
52-Week Range (INR)	55 / 34
1, 6, 12 Rel. Per (%)	2/11/28
12M Avg Val (INR M)	605
Free float (%)	16.5

## Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
NII	277.9	312.2	354.8
OP	218.7	223.2	260.6
NP	52.3	62.6	89.4
NIM (%)	2.6	2.7	2.8
EPS (INR)	7.9	9.2	13.1
EPS Gr (%)	74.2	15.9	42.9
ABV (INR)	99.4	105.6	113.7
Con. BV (INR)	71.7	83.2	92.5

## Ratios

RoE (%)	8.3	9.2	12.3
RoA (%)	0.5	0.5	0.7

## Valuations

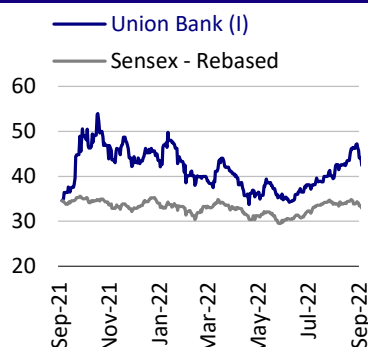
P/E (x)	5.4	4.6	3.2
P/BV (x)	0.4	0.4	0.4
P/ABV (x)	0.6	0.5	0.5

## Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	83.5	83.5	83.5
DII	6.9	7.1	6.8
FII	1.1	1.2	1.7
Others	8.5	8.3	8.0

FII Includes depository receipts

## Stock's performance (one-year)



## Improvement in asset quality on track

**Aims to pare down GNPA/NNPA ratio to less than 9%/2.9% by FY23**

We attended UNBK's thematic investor day on asset quality. The MD and CEO, Executive Directors, and other top management highlighted the various initiatives undertaken by the bank to: a) improve the underwriting standards, b) increased focus on speedy and timely resolution of stressed assets, c) better monitoring of the SMA book, and, d) higher focus on recoveries, with a target to pare down the GNPA/NNPA ratio to less than 9%/2.9% by FY23. Following are the key takeaways from the meet:

- The bank has segregated and shifted the loan portfolio to dedicated verticals, which focusses on marketing and general servicing.
- UNBK has opened 250 Retail loan points, 125 MSME loan points (loans up to INR500m), mid-Corporate branches (disseminating loans in the INR500m-INR2.5b range), and 13 large Corporate branches (disseminating loans of over INR2.5b) to primarily focus on specific loan segments.
- Stressed loans worth INR2m and above goes to a dedicated vertical for a recovery and follow-up.
- **FY23 guidance:** GNPA/NNPA to be sub-9%/3%. Slippages to moderate to less than 2%, with a credit cost of less than 1.7%.
- The bank saw recoveries of INR38b and is on track to achieve total recoveries of INR150b in FY23.
- As resolution proceedings at the NCLT are taking longer to resolve (TAT of ~440 days), the management is focusing on accelerating recoveries via SARFAESI and DRT.
- **SARFAESI:** UNBK is separately focused on monitoring SARFAESI and DRT processes for a speedy and smooth resolution. The bank will conduct one mega e-auction, under SARFAESI, to speed up the resolution process. It is selling more than 100 properties every month via SARFAESI.
- The bank has formed a Stressed Asset Management (SAM) department for large ticket size loans. It has a total of nine such centers handling loans of ~INR1t.
- It has 19 ARBs handling loans, with an exposure of INR10-250m, and is currently handling loans worth INR140b.
- For cases under DRT, the bank has integrated 11 agencies, via API, for speedy transmission and better monitoring.
- UNBK has more than 20k advocates, who are incentivized based on the resolution and success rate of the cases being handled. Inefficient advocates are removed from its empanelment.
- The management intends to completely digitize the stressed asset management vertical, with nil paperwork, from FY23.
- Since recoveries are faster in the initial years and becomes difficult as the account ages, the focus is on resolving the same at the earliest.

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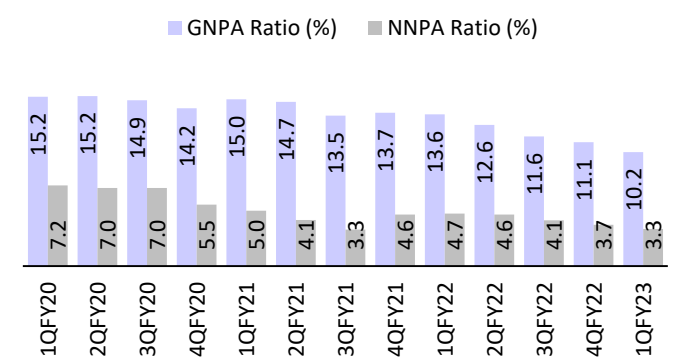
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

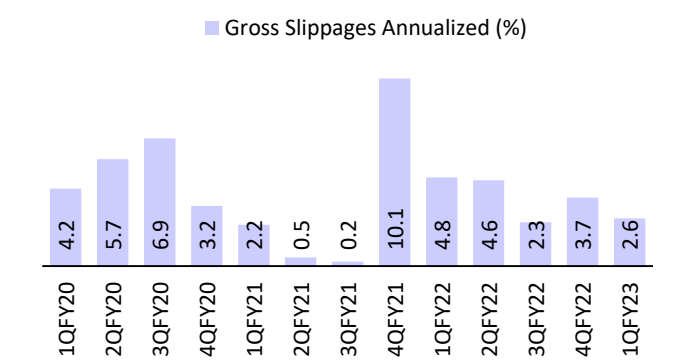
- The bank has established 118 RCoCs and 18 ZCoCs. These centers focus entirely on collections.
- Some stress is visible in the Housing loan book. The management ensures that the borrower keeps at least two EMIs in the bank account.
- Total standard restructuring book stands at INR167b, of which INR45b appears to be stressed. MSMEs may witness some stress, but the same will not impact overall asset quality.
- **Of the total restructuring book, accounts worth ~INR32b, i.e. 17-18% has slipped into NPA. Within this book, SMA remains controlled at INR20b.**
- There remains good demand for NPA resolution in Steel, Infrastructure, and Power segments, which should see resolutions over the next few quarters.
- One account in the Textile segment is likely to see a resolution soon, which will aid overall recoveries.
- **The recovery rate on the principal stands at 40-50% in the Power and Steel segment, while the same is higher (~70%) in Road accounts.**
- The bank is implementing schemes such as one-time settlement (OTS) and renewal of facilities to tackle stress/NPAs in the Agri segment.

**Exhibit 1: GNPA/NNPA ratio improves by 89bp/37bp QoQ in 1QFY23**



Source: MOFSL, Company

**Exhibit 2: Slippages moderate to 2.6% in 1QFY23**



Source: MOFSL, Company

**Exhibit 3: SMA book stands negligible, augurs well for future stress formation**

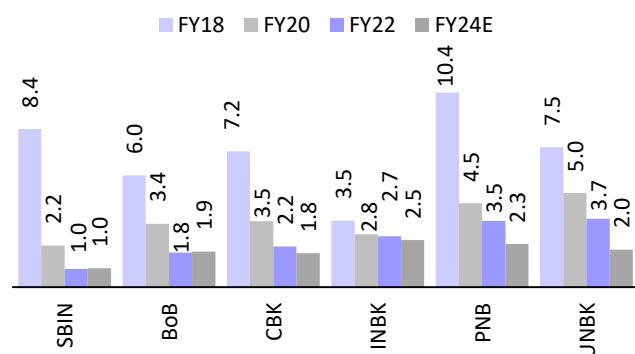
SMA book in 1QFY23	SMA 0	SMA 1	SMA 2
BOB	NA	0.5%	
BOI	NA	0.2%	0.3%
CBK	0.7%	0.2%	0.4%
INBK	NA	0.4%	0.2%
PNB	NA	NA	0.3%
SBIN	NA	0.2%	0.1%
<b>UNBK</b>	<b>0.3%</b>	<b>0.1%</b>	<b>0.1%</b>
BANDHAN	4.7%	2.4%	5.6%
KMB	NA	NA	0.1%

Source: MOFSL, Company

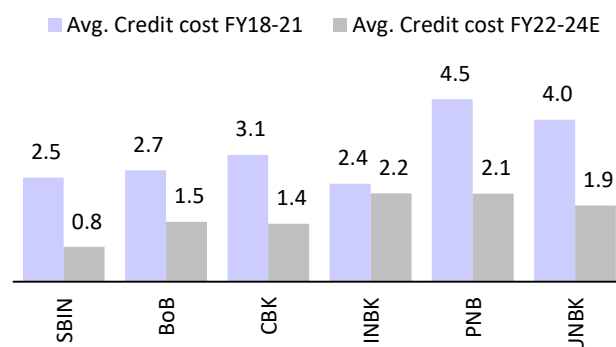
**Exhibit 4: Restructured portfolio for PSBs**

1QFY23 (INR b)	Absolute	Mar'21	Sep'21	Mar'22	Jun'22
BOB	196.7	1.34%	2.95%	2.44%	2.46%
SBIN	287.9	0.73%	1.24%	1.13%	1.02%
INBK	165.8	1.64%	5.85%	4.73%	4.17%
PNB	147.0	NA	2.60%	2.36%	1.98%
<b>UNBK</b>	<b>212.4</b>	<b>1.10%</b>	<b>3.69%</b>	<b>2.99%</b>	<b>2.92%</b>
BOI	104.1	NA	3.61%	2.63%	2.35%
CBK	180.0	NA	2.85%	2.77%	2.41%

Source: MOFSL, Company

**Exhibit 5: Slippage trend moderates over FY22, to stay controlled over FY22-24 for PSBs**

Source: MOFSL, Company

**Exhibit 6: Expect credit cost to moderate over FY22-24 as Banks are well provided for its legacy stressed assets**

Source: MOFSL, Company

**Exhibit 7: Asset quality ratios expectations for key PSBs**

PSBs	GNPA ratio (%)				NNPA ratio (%)				PCR (%)			
	FY18	FY21	FY22	FY24E	FY18	FY21	FY22	FY24E	FY18	FY21	FY22	FY24E
SBIN	10.9	5.0	4.0	3.0	5.7	1.5	1.0	0.8	50.4	70.9	75.0	74.6
BOB	12.3	8.9	6.6	4.5	5.5	3.1	1.7	0.9	58.4	67.3	75.3	80.9
CBK	11.9	8.9	7.5	5.3	7.5	3.9	2.7	1.6	39.5	58.8	65.9	71.4
INBK	7.4	9.9	8.5	6.2	3.8	3.4	2.3	1.3	50.3	68.1	73.0	79.7
PNB	18.4	14.1	11.8	8.6	11.3	5.8	4.9	3.2	43.4	62.4	61.5	65.1
UNBK	15.7	13.7	11.1	7.2	8.4	4.7	3.8	2.2	50.7	69.2	68.7	70.6

Source: MOFSL, Company

**Exhibit 8: DuPont Analysis: We expect return ratios to improve in FY23E and FY24E**

Y/E MARCH (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	6.97	6.94	7.13	6.57	6.01	6.46	6.76
Interest Expense	4.99	4.86	4.94	4.21	3.55	3.94	4.13
<b>Net Interest Income</b>	<b>1.98</b>	<b>2.08</b>	<b>2.19</b>	<b>2.36</b>	<b>2.46</b>	<b>2.52</b>	<b>2.63</b>
Fee income	0.79	0.79	0.73	0.73	0.82	0.75	0.77
Trading and others	0.27	0.12	0.28	0.39	0.29	0.14	0.16
<b>Non-Interest Income</b>	<b>1.06</b>	<b>0.91</b>	<b>1.01</b>	<b>1.12</b>	<b>1.11</b>	<b>0.89</b>	<b>0.93</b>
<b>Total Income</b>	<b>3.04</b>	<b>2.99</b>	<b>3.20</b>	<b>3.48</b>	<b>3.57</b>	<b>3.41</b>	<b>3.56</b>
<b>Operating Expenses</b>	<b>1.44</b>	<b>1.46</b>	<b>1.44</b>	<b>1.60</b>	<b>1.63</b>	<b>1.61</b>	<b>1.63</b>
Employees	0.67	0.64	0.64	0.89	0.90	0.87	0.88
Others	0.77	0.82	0.80	0.71	0.74	0.74	0.75
<b>Operating Profits</b>	<b>1.60</b>	<b>1.53</b>	<b>1.76</b>	<b>1.88</b>	<b>1.94</b>	<b>1.80</b>	<b>1.93</b>
<b>Core Operating Profits</b>	<b>1.33</b>	<b>1.42</b>	<b>1.48</b>	<b>1.49</b>	<b>1.64</b>	<b>1.66</b>	<b>1.77</b>
<b>Provisions</b>	<b>3.02</b>	<b>2.33</b>	<b>2.53</b>	<b>1.65</b>	<b>1.18</b>	<b>1.03</b>	<b>1.01</b>
NPA	2.87	2.33	1.78	1.33	1.03	0.98	0.97
Others	0.14	0.00	0.75	0.32	0.15	0.04	0.04
<b>PBT</b>	<b>-1.41</b>	<b>-0.80</b>	<b>-0.77</b>	<b>0.23</b>	<b>0.76</b>	<b>0.78</b>	<b>0.92</b>
Tax	-0.30	-0.20	-0.22	-0.05	0.30	0.27	0.26
<b>RoA</b>	<b>-1.12</b>	<b>-0.60</b>	<b>-0.55</b>	<b>0.28</b>	<b>0.46</b>	<b>0.51</b>	<b>0.66</b>
Leverage (x)	21.3	20.9	19.0	18.3	18.0	18.2	18.5
<b>RoE</b>	<b>-23.8</b>	<b>-12.5</b>	<b>-10.6</b>	<b>5.1</b>	<b>8.3</b>	<b>9.2</b>	<b>12.3</b>

## Financials and valuations

Income Statement						(INRb)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	327.5	340.7	372.3	687.7	679.4	800.4	912.2
Interest Expense	234.4	238.5	257.9	440.8	401.6	488.2	557.4
<b>Net Interest Income</b>	<b>93.0</b>	<b>102.1</b>	<b>114.4</b>	<b>246.9</b>	<b>277.9</b>	<b>312.2</b>	<b>354.8</b>
Growth (%)	4.5	9.8	12.0	115.9	12.5	12.4	13.7
Non-Interest Income	49.9	44.7	52.6	117.4	125.2	110.2	125.6
<b>Total Income</b>	<b>142.9</b>	<b>146.9</b>	<b>167.0</b>	<b>364.3</b>	<b>403.1</b>	<b>422.4</b>	<b>480.5</b>
Growth (%)	3.1	2.8	13.7	118.2	10.6	4.8	13.7
Operating Expenses	67.5	71.7	75.2	167.7	184.4	199.2	219.9
<b>Pre Provision Profits</b>	<b>75.4</b>	<b>75.2</b>	<b>91.8</b>	<b>196.7</b>	<b>218.7</b>	<b>223.2</b>	<b>260.6</b>
Growth (%)	1.5	-0.2	22.1	114.2	11.2	2.1	16.7
<b>Core PPP</b>	<b>62.7</b>	<b>69.5</b>	<b>77.2</b>	<b>156.1</b>	<b>185.7</b>	<b>205.8</b>	<b>238.7</b>
Growth (%)	48.7	10.7	11.1	102.2	19.0	10.8	16.0
Provisions (excl. tax)	141.8	114.5	132.1	172.7	132.9	126.9	136.4
<b>PBT</b>	<b>-66.4</b>	<b>-39.3</b>	<b>-40.3</b>	<b>24.0</b>	<b>85.8</b>	<b>96.3</b>	<b>124.2</b>
Tax	-13.9	-9.8	-11.3	-5.1	33.5	33.7	34.8
Tax Rate (%)	21.0	24.9	28.1	-21.1	39.0	35.0	28.0
<b>PAT</b>	<b>-52.5</b>	<b>-29.5</b>	<b>-29.0</b>	<b>29.1</b>	<b>52.3</b>	<b>62.6</b>	<b>89.4</b>
Growth (%)	-1,045.1	-43.8	-1.7	-200.3	80.0	19.6	42.9

Balance Sheet							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	11.7	17.6	34.2	64.1	68.3	68.3	68.3
Reserves & Surplus	239.3	247.2	303.6	580.7	637.4	679.5	734.8
<b>Net Worth</b>	<b>251.0</b>	<b>264.9</b>	<b>337.9</b>	<b>644.8</b>	<b>705.8</b>	<b>747.9</b>	<b>803.1</b>
<b>Deposits</b>	<b>4,085.0</b>	<b>4,159.2</b>	<b>4,506.7</b>	<b>9,238.1</b>	<b>10,323.9</b>	<b>11,253.1</b>	<b>12,378.4</b>
Growth (%)	8.0	1.8	8.4	105.0	11.8	9.0	10.0
<b>of which CASA Deposits</b>	<b>1,392.4</b>	<b>1,501.4</b>	<b>1,603.7</b>	<b>3,355.9</b>	<b>3,771.9</b>	<b>4,141.1</b>	<b>4,592.4</b>
Growth (%)	6.9	7.8	6.8	109.3	12.4	9.8	10.9
Borrowings	456.8	428.6	524.9	518.4	511.8	536.2	563.5
Other Liabilities & Prov.	81.0	87.7	137.4	315.9	334.4	351.2	368.7
<b>Total Liabilities</b>	<b>4,873.8</b>	<b>4,940.4</b>	<b>5,506.8</b>	<b>10,717.1</b>	<b>11,875.9</b>	<b>12,888.3</b>	<b>14,113.7</b>
Current Assets	494.4	430.5	551.1	844.1	1,195.0	1,131.8	1,242.4
<b>Investments</b>	<b>1,237.5</b>	<b>1,260.5</b>	<b>1,524.1</b>	<b>3,315.1</b>	<b>3,485.1</b>	<b>3,729.0</b>	<b>4,064.6</b>
Growth (%)	10.3	1.9	20.9	117.5	5.1	7.0	9.0
<b>Loans</b>	<b>2,887.6</b>	<b>2,969.3</b>	<b>3,150.5</b>	<b>5,909.8</b>	<b>6,610.0</b>	<b>7,304.1</b>	<b>8,107.6</b>
Growth (%)	0.8	2.8	6.1	87.6	11.8	10.5	11.0
Fixed Assets	38.3	37.6	47.6	73.4	71.9	75.5	79.3
Other Assets	215.9	242.5	233.5	574.6	513.9	647.9	619.8
<b>Total Assets</b>	<b>4,873.8</b>	<b>4,940.4</b>	<b>5,506.8</b>	<b>10,717.1</b>	<b>11,875.9</b>	<b>12,888.3</b>	<b>14,113.7</b>

Asset Quality							
GNPA (INR m)	493.7	487.3	490.9	897.9	795.9	663.4	618.5
NNPA (INR m)	243.3	203.3	173.0	279.4	249.3	195.7	182.0
GNPA Ratio	15.73	14.98	14.15	13.75	11.12	8.54	7.24
NNPA Ratio	8.42	6.85	5.49	4.73	3.77	2.68	2.24
Slippage Ratio	7.46	4.70	5.02	2.93	3.65	2.10	2.00
Credit Cost	4.69	3.90	4.32	2.90	2.12	1.75	1.70
PCR (Excl. Tech. write off)	50.7	58.3	64.7	68.9	68.7	70.5	70.6

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield-Earning Assets</b>	<b>7.3</b>	<b>7.3</b>	<b>7.5</b>	<b>7.0</b>	<b>6.4</b>	<b>6.8</b>	<b>7.1</b>
Avg. Yield on loans	7.9	8.1	8.2	7.7	7.2	7.8	8.1
Avg. Yield on Investments	7.6	7.4	7.7	6.8	5.9	6.2	6.5
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.4</b>	<b>5.2</b>	<b>5.4</b>	<b>4.6</b>	<b>3.9</b>	<b>4.3</b>	<b>4.5</b>
Avg. Cost of Deposits	5.5	5.4	5.5	4.6	3.8	4.3	4.5
<b>Interest Spread</b>	<b>1.9</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>
<b>Net Interest Margin</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>2.8</b>

### Capitalisation Ratios (%)

CAR	11.6	11.9	12.7	12.6	14.5	14.2	13.9
Tier I	9.1	9.6	10.7	10.4	12.2	11.9	11.7
Tier II	2.4	2.3	2.0	2.2	2.3	2.3	2.2

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	70.7	71.4	69.9	64.0	64.0	64.9	65.5
CASA Ratio	34.1	36.1	35.6	36.3	36.5	36.8	37.1
Cost/Assets	1.4	1.5	1.4	1.6	1.6	1.5	1.6
Cost/Total Income	47.3	48.8	45.0	46.0	45.7	47.2	45.8
Cost/ Core Income	-0.5	-1.3	-0.5	-0.4	-0.6	-1.2	-1.0
Int. Expense/Int. Income	71.6	70.0	69.3	64.1	59.1	61.0	61.1
Fee Income/Total Income	26.0	26.6	22.7	21.1	22.9	22.0	21.6
Non Int. Inc. Total Income	34.9	30.5	31.5	32.2	31.1	26.1	26.2
Emp. Cost/Total Expense	46.7	44.0	44.7	55.4	54.9	53.8	53.9
Investment/Deposit Ratio	30.3	30.3	33.8	35.9	33.8	33.1	32.8

### Profitability Ratios and Valuation

RoE	-23.7	-12.5	-10.6	5.1	8.3	9.2	12.3
RoA	-1.1	-0.6	-0.6	0.3	0.5	0.5	0.7
RoRWA	-1.8	-1.1	-1.0	0.5	1.0	1.1	1.4
Book Value (INR)	203.7	143.3	93.6	96.4	99.4	105.6	113.7
Growth (%)	-38.1	-29.7	-34.7	3.0	3.1	6.2	7.7
Price-BV (x)	0.2	0.3	0.5	0.4	0.4	0.4	0.4
Adjusted BV (INR)	50.8	57.3	54.5	63.3	71.7	83.2	92.5
Price-ABV (x)	0.8	0.7	0.8	0.7	0.6	0.5	0.5
EPS (INR)	-56.5	-20.1	-11.2	4.5	7.9	9.2	13.1
Growth (%)	-800.1	-64.4	-44.4	-140.6	74.2	15.9	42.9
Price-Earnings (x)	-0.7	-2.1	-3.8	9.3	5.4	4.6	3.2

## NOTES

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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