

Union Bank of India

BSE SENSEX

66,174

S&P CNX

19,890



Stock Info

Bloomberg	UNBK IN
Equity Shares (m)	6835
M.Cap.(INRb)/(USD\$)	802 / 9.6
52-Week Range (INR)	116 / 60
1, 6, 12 Rel. Per (%)	4/47/29
12M Avg Val (INR M)	1863
Free float (%)	23.0

Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
NII	327.7	367.4	400.9
OP	254.7	281.0	305.6
NP	84.3	135.2	164.8
NIM (%)	2.8	2.9	2.9
EPS (INR)	12.3	19.0	22.2
EPS Gr (%)	56.1	53.8	17.2
BV (INR)	110	122	140
ABV (INR)	94	112	131

Ratios

RoE (%)	12.2	16.9	17.5
RoA (%)	0.7	1.0	1.1

Valuations

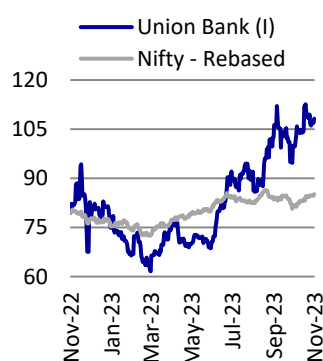
P/E (x)	8.8	5.7	4.9
P/BV (x)	1.0	0.9	0.8
P/ABV (x)	1.2	1.0	0.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	77.0	83.5	83.5
DII	12.7	7.9	7.1
FII	2.9	1.5	1.4
Others	7.4	7.2	8.0

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR109

TP: INR130 (+20%)

Buy

Business performance robust; strong focus on profitability

RBI's revised risk weights to impact CET-1 by ~45bp

At its analyst day meet, Union Bank of India's (UNBK) top management team highlighted various initiatives undertaken by the bank to improve its underwriting standards and to augment credit and deposit growth. The management also reiterated its focus on a speedy and timely resolution of stressed assets and improvement of key operational parameters. Following are the key takeaways:

Loan growth to remain healthy; guides for FY24 credit growth of 10-12%

UNBK is witnessing healthy traction in loan growth, led by continued strength in Retail. Corporate and SME segments are also seeing improving trends. The bank is seeing good traction in steel, cement, power and infrastructure sectors. Overall, the management expects credit growth to be ~10-12% in FY24. On the deposit front, the bank is growing retail deposits at a steady pace with an aim of growing deposits through CASA/retail term and not via bulk deposits. The bank has excess liquidity of INR770b and will utilize this to fund growth. About 50% of the loan book is linked to MCLR; half of the total MCLR book was re-priced in 1HFY24 and the remaining will be re-priced in 2HFY4. The bank thus expects a 20-30bp increase in lending yields on a sequential basis.

Margins outlook steady; NIMs expanded 5bp QoQ to 3.18%

50% of the loan book is linked to MCLR and out of the total MCLR book half has got re-priced in 1HFY24 and remaining will get re-priced in 2HFY4. The bank thus expects 20-30 bps increase in lending yields on sequential basis which will support margins. Thus, the bank expects NIM to remain at ~3% by end of FY24.

CET-1 to get impacted by ~45bp due to recent increase in risk weight

UNBK has a total unsecured retail portfolio of INR110b (INR10b toward credit card and the rest toward personal loans). Nearly 63% of the total unsecured personal loans are attributed to the salaried segment. With respect to NBFC exposure of INR1.35t, total Non-PSL book is INR725b, of which 96% is rated A & above. Due to the new RBI regulation on risk weight, UNBK expects an impact of 50-60bp on CRAR and 45-47bp on CET-1. UNBK is closely monitoring the risk in the retail segment; however, strong profitability and healthy capitalization levels will cushion the impact of the recent RBI measures.

Asset quality robust; Net NPA ratio to decline to <1% by 4QFY24

UNBK's asset quality continues to improve with a constant moderation in NPA ratios. Slippages have primarily been led by the MSME segment, while the corporate segment has remained fairly strong. Overall, UNBK expects recoveries of INR160b (INR78b already made in 1HFY24), while it expects slippages of INR130b in FY24. The bank has recovered ~INR15b in 1HFY24 from written-off accounts and expects to recover INR40b by FY24 end. UNBK focuses on bringing down GNPA in the SME segment, which is high at ~11-12%. Overall, the bank has guided for GNPA/NNPA ratios of <5%/1% in FY24. With respect to Ind-AS transition, UNBK expects an ECL impact of INR80b as on Sep'23 (INR120b as on Mar'23) and aims to build 100% provisioning buffer before the implementation in FY26.

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Strong focus on profitability; aims to deliver sustainable RoA of >1%

UNBK is currently making wage provisions to reflect 15% salary hike, though it expects the wage hike settlement in the range of 16-18%. While the cost-to-income ratio remains among the lowest, the bank believes that it can further improve opex ratios as it outsources some of the business functions. The bank has already achieved its FY24 RoA/ROE targets of 1%/17%. UNBK aims to deliver sustainable RoA of >1% and has put in place several measures to control credit costs, sustaining healthy margins and transition towards new tax regime.

Other highlights

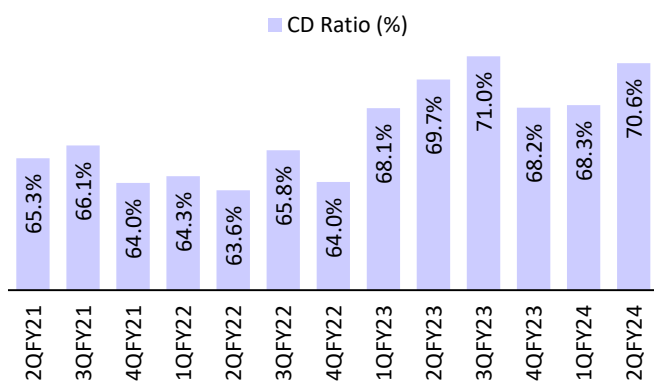
- UNBK switched to the new tax regime in Mar'23 and had a one-time impact of INR25b and DTA impact of INR86b in 1HFY24. The effective tax rate from FY25 onwards would be ~18%.
- The bank is making significant investments in ramping up digital banking and is in process of launching 15+ digital journeys. The bank employs a DSA network and 40% of the loans are outsourced through these channels, and the remaining comes from the network of ~8,500 branches. The bank aims to reduce the mix of loans sourced through DSA to 25% from the current levels of 40%.
- The bank is aiming to launch the digital lending journey for Home Loan and subsequently bring in Gold loan as well. UNBK has launched a new mobile platform last year and has a customer base of ~24mn.
- UNBK is further taking steps to boost CASA deposits and focus remains on increasing the CASA mix.
- UNBK is aiming to increase the modified duration from current 1.19 years to 3 years. It has on-boarded Accenture for scaling up its analytical capability.
- UNBK aims to become the third largest PSU bank in respect to profitability from the current fourth rank.
- The bank aims to reach a RoA of more than 1% in FY24.
- The bank has sufficient capital to meet growth opportunities. However, it will raise capital as and when it sees an opportunity to bring down the government shareholding below 75%.

Valuation and view

UNBK has been reporting a healthy performance over the past few quarters, with earnings driven by strong NII, healthy margins, higher other income and moderation in provisions. Fresh slippages have been moderating, which, coupled with healthy recoveries and upgrades, have resulted in an improvement in asset quality ratios. Further, a low SMA book (0.52%) and controlled restructuring (1.7%) provide a better outlook on asset quality. Loan growth has picked up well and has been broad-based with focus likely to remain on further credit growth improvement. We estimate loans to grow at ~12% over FY24-26E with RoA/RoE at 1.2%/17.3%, respectively, by FY26. **We maintain our BUY rating with a TP of INR130 (premised on 1.0x FY25E ABV).**

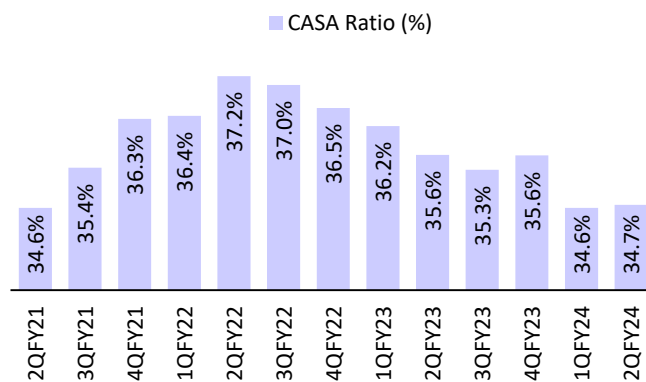
Story in charts

Exhibit 1: CD ratio increases QoQ to ~70.6% in 2QFY24



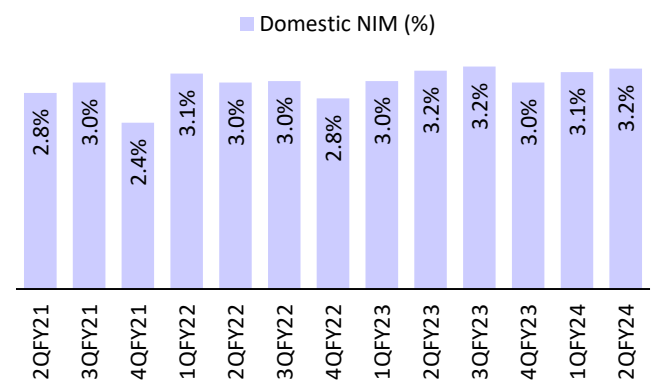
Source: MOFSL, Company

Exhibit 2: CASA ratio remains healthy at 34.7%



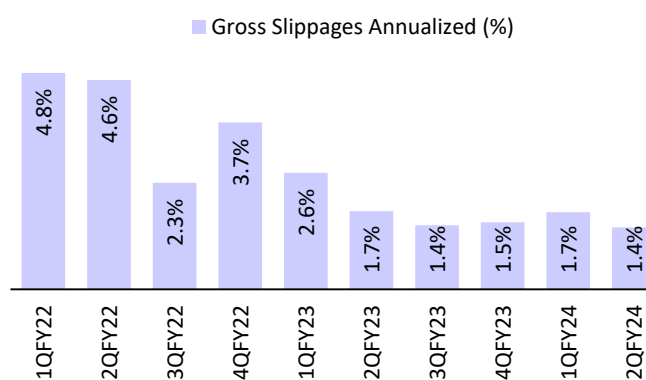
Source: MOFSL, Company

Exhibit 3: NIMs expand 5bp QoQ to 3.18%



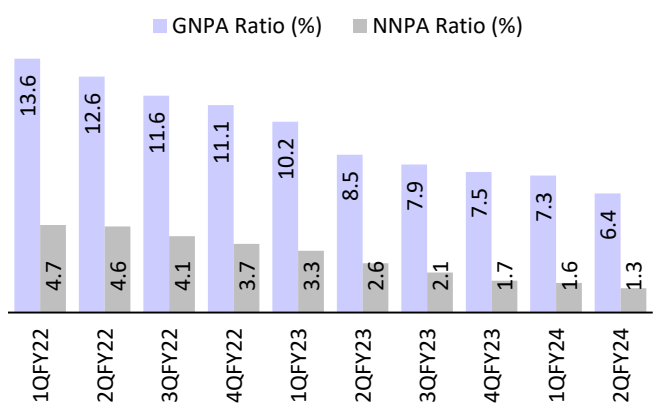
Source: MOFSL, Company

Exhibit 4: Slippages moderate to 1.4% in 2QFY24



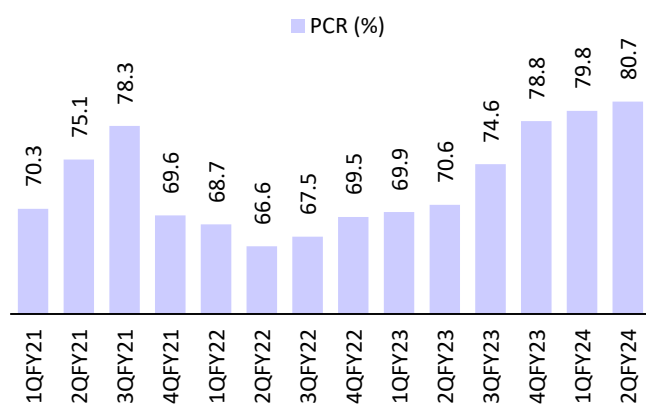
Source: MOFSL, Company

Exhibit 5: GNPA/NNPA ratios improve 96bp/28bp QoQ



Source: MOFSL, Company

Exhibit 6: PCR improves marginally to 80.7% in 2QFY24



Source: MOFSL, Company

Exhibit 7: DuPont Analysis: We expect return ratios to improve steadily over FY24/FY25

Y/E MARCH (%)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	7.13	6.57	6.01	6.54	7.38	7.37	7.31
Interest Expense	4.94	4.21	3.55	3.89	4.63	4.62	4.56
Net Interest Income	2.19	2.36	2.46	2.65	2.75	2.75	2.74
Fee income	0.73	0.73	0.82	1.10	1.03	1.01	1.00
Trading and others	0.28	0.39	0.29	0.09	0.09	0.10	0.11
Non-Interest Income	1.01	1.12	1.11	1.19	1.12	1.11	1.11
Total Income	3.20	3.48	3.57	3.84	3.87	3.86	3.86
Operating Expenses	1.44	1.60	1.63	1.78	1.76	1.76	1.75
Employees	0.64	0.89	0.90	1.00	1.00	1.00	1.00
Others	0.80	0.71	0.74	0.77	0.76	0.76	0.75
Operating Profits	1.76	1.88	1.94	2.06	2.10	2.10	2.11
Core Operating Profits	1.48	1.49	1.64	1.98	2.01	2.00	2.00
Provisions	2.53	1.65	1.18	1.08	0.57	0.58	0.53
NPA	1.78	1.33	1.03	1.01	0.54	0.55	0.50
Others	0.75	0.32	0.15	0.07	0.03	0.03	0.03
PBT	-0.77	0.23	0.76	0.98	1.53	1.52	1.58
Tax	-0.22	-0.05	0.30	0.30	0.52	0.39	0.40
RoA	-0.55	0.28	0.46	0.68	1.01	1.13	1.18
Leverage (x)	19.0	18.3	18.0	17.9	16.7	15.4	14.7
RoE	-10.6	5.1	8.3	12.2	16.9	17.5	17.3

Financials and valuations

Income Statement							(INR b)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	372.3	687.7	679.4	807.4	985.8	1,074.0	1,165.9
Interest Expense	257.9	440.8	401.6	479.8	618.4	673.1	728.0
Net Interest Income	114.4	246.9	277.9	327.7	367.4	400.9	437.9
Growth (%)	12.0	115.9	12.5	17.9	12.1	9.1	9.2
Non Interest Income	52.6	117.4	125.2	146.3	149.3	161.2	177.3
Total Income	167.0	364.3	403.1	474.0	516.6	562.1	615.2
Growth (%)	13.7	118.2	10.6	17.6	9.0	8.8	9.5
Operating Expenses	75.2	167.7	184.4	219.3	235.6	256.4	279.1
Pre Provision Profits	91.8	196.7	218.7	254.7	281.0	305.6	336.1
Growth (%)	22.1	114.2	11.2	16.4	10.3	8.8	10.0
Core PPP	77.2	156.1	185.7	243.8	268.9	291.2	318.7
Growth (%)	11.1	102.2	19.0	31.3	10.3	8.3	9.4
Provisions (excl tax)	132.1	172.7	132.9	133.3	76.2	84.4	83.8
PBT	-40.3	24.0	85.8	121.4	204.8	221.3	252.3
Tax	-11.3	-5.1	33.5	37.0	69.6	56.4	64.3
Tax Rate (%)	28.1	-21.1	39.0	30.5	34.0	25.5	25.5
PAT	-29.0	29.1	52.3	84.3	135.2	164.8	188.0
Growth (%)	-1.7	-200.3	80.0	61.2	60.3	22.0	14.0

Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	34.2	64.1	68.3	68.3	74.1	74.1	74.1
Reserves & Surplus	303.6	580.7	637.4	715.0	865.9	997.4	1,148.3
Net Worth	337.9	644.8	705.8	783.3	940.0	1,071.5	1,222.4
Deposits	4,506.7	9,238.1	10,323.9	11,177.2	12,071.3	13,157.8	14,407.7
Growth (%)	8.4	105.0	11.8	8.3	8.0	9.0	9.5
of which CASA Dep	1,603.7	3,355.9	3,771.9	3,940.6	4,176.7	4,605.2	5,100.3
Growth (%)	6.8	109.3	12.4	4.5	6.0	10.3	10.8
Borrowings	524.9	518.4	511.8	431.4	448.6	470.5	494.2
Other Liabilities & Prov.	137.4	315.9	334.4	415.6	457.2	512.1	573.5
Total Liabilities	5,506.8	10,717.1	11,875.9	12,807.5	13,917.2	15,211.8	16,697.9
Current Assets	551.1	844.1	1,195.0	1,121.5	1,076.7	1,090.3	1,192.2
Investments	1,524.1	3,315.1	3,485.1	3,393.0	3,664.4	3,920.9	4,175.8
Growth (%)	20.9	117.5	5.1	-2.6	8.0	7.0	6.5
Loans	3,150.5	5,909.8	6,610.0	7,618.5	8,456.5	9,429.0	10,513.3
Growth (%)	6.1	87.6	11.8	15.3	11.0	11.5	11.5
Fixed Assets	47.6	73.4	71.9	88.3	92.7	97.3	102.2
Other Assets	233.5	574.6	513.9	586.3	626.9	674.3	714.5
Total Assets	5,506.8	10,717.1	11,875.9	12,807.5	13,917.2	15,211.8	16,697.9

Asset Quality

GNPA (INR m)	490.9	897.9	795.9	609.9	478.2	410.2	382.8
NNPA (INR m)	173.0	279.4	249.3	133.6	83.8	70.6	71.3
GNPA Ratio	14.15	13.75	11.12	7.53	5.40	4.20	3.54
NNPA Ratio	5.49	4.73	3.77	1.75	0.99	0.75	0.68
Slippage Ratio	5.02	2.93	3.65	1.76	1.70	1.70	1.70
Credit Cost	4.32	2.90	2.12	1.87	0.90	0.90	0.80
PCR (Excl Tech. write off)	64.7	68.9	68.7	78.1	82.5	82.8	81.4

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	7.5	7.0	6.4	6.9	7.8	7.8	7.7
Avg. Yield on loans	8.2	7.7	7.2	8.0	8.9	8.8	8.6
Avg. Yield on Investments	7.7	6.8	5.9	6.3	6.8	6.8	6.9
Avg. Cost-Int. Bear. Liab.	5.4	4.6	3.9	4.3	5.1	5.1	5.1
Avg. Cost of Deposits	5.5	4.6	3.8	4.1	5.1	5.1	5.1
Interest Spread	2.2	2.4	2.5	2.6	2.7	2.6	2.6
Net Interest Margin	2.3	2.5	2.6	2.8	2.9	2.9	2.9

Capitalisation Ratios (%)

CAR	12.7	12.6	14.5	16.0	18.0	17.9	18.5
Tier I	10.7	10.4	12.2	13.9	16.1	16.1	16.8
Tier II	2.0	2.2	2.3	2.1	2.0	1.8	1.6

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	69.9	64.0	64.0	68.2	70.1	71.7	73.0
CASA Ratio	35.6	36.3	36.5	35.3	34.6	35.0	35.4
Cost/Assets	1.4	1.6	1.6	1.7	1.7	1.7	1.7
Cost/Total Income	45.0	46.0	45.7	46.3	45.6	45.6	45.4
Cost/ Core Income	-0.5	-0.4	-0.6	-2.1	-2.0	-1.8	-1.7
Int. Expense/Int.Income	69.3	64.1	59.1	59.4	62.7	62.7	62.4
Fee Income/Total Income	22.7	21.1	22.9	28.6	26.5	26.1	26.0
Non Int. Inc.Total Income	31.5	32.2	31.1	30.9	28.9	28.7	28.8
Empl. Cost/Total Expense	44.7	55.4	54.9	56.5	56.8	56.9	57.0
Investment/Deposit Ratio	33.8	35.9	33.8	30.4	30.4	29.8	29.0

Profitability Ratios and Valuation

RoE	-10.6	5.1	8.3	12.2	16.9	17.5	17.3
RoA	-0.6	0.3	0.5	0.7	1.0	1.1	1.2
RoRWA	-1.0	0.5	1.0	1.4	2.2	2.4	2.5
Book Value (INR)	94	96	99	110	122	140	160
Growth (%)	-34.7	3.0	3.1	10.3	11.5	14.5	14.5
Price-BV (x)	1.1	1.0	1.0	0.9	0.8	0.7	0.6
Adjusted BV (INR)	55	63	72	94	112	131	151
Price-ABV (x)	1.8	1.6	1.4	1.1	0.9	0.8	0.7
EPS (INR)	-11.2	4.5	7.9	12.3	19.0	22.2	25.4
Growth (%)	-44.4	-140.6	74.2	56.1	53.8	17.2	14.0
Price-Earnings (x)	-8.9	22.0	12.7	8.1	5.3	4.5	3.9
Dividend Per Share (INR)	0.0	0.0	1.9	3.0	3.8	4.5	5.0
Dividend Yield (%)	0.0	0.0	1.9	3.0	3.8	4.5	5.0

E: MOFSL Estimates

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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

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