

October 28, 2011

Union Bank of India (UNIBAN)

₹ 210

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹278 to ₹ 220
EPS (FY12E)	Changed from ₹ 46.0 to ₹ 36.5
EPS (FY13E)	Changed from ₹ 51.8 to ₹ 46.5
RATING	Changed from Buy to Hold

Asset quality hurts bottomline...

Union bank reported disappointing PAT growth of 16% YoY to ₹ 352.6 crore (24% QoQ de-growth) on account of high provision of ₹ 622.8 crore (our estimate: ₹ 441.7 crore). Business grew moderately by 13% YoY to ₹ 342856 crore (1% QoQ de-growth) with NII growing 8.2% YoY to ₹ 1661.3 crore in line with estimates. Bank managed to improve NIM by 10 bps QoQ to 3.2% as CD ratio jumped 223 bps QoQ to 75.3%. Other income was flat YoY at ₹ 501 crore while operating expenses grew 4.6% YoY in line with estimate to ₹ 957 crore (5.4% QoQ). Bank felt the heat of poor asset quality as GNPA rose 37.2% QoQ in absolute terms to ₹ 5136 crore. Bank made high provision on back of these NPA but still its PCR was significantly low at 60.5%. We expect asset quality concern to remain high and hence revised GNPA ratio from 2.5% to 3.3% for FY12E. We have scaled down profit target from ₹2716 crore to ₹2439 crore for FY13E.

■ Pain of poor asset quality felt...

Banks GNPA grew 37.1% QoQ to ₹ 5136 crore with GNPA ratio at 3.5% while its NNPA ratio stood at 2% with PCR of 60.5%. Incremental slippage for the quarter was ₹ 1821 crore out of which ~₹ 1300 crore slippage was on account of complete migration to system based NPA recognition. Bank witnessed restructuring of ₹ 756 crore during the quarter across the sectors like sugar, chemical, textile etc. ~13.1% of restructured asset slipped in NPA. Bank expects recoveries in H2FY12 but we remain cautious on asset quality and hence revise our GNPA from ₹ 4610 crore to ₹ 5932 crore by FY12E. We estimate GNPA ratio of 3.3% and NNPA ratio of 1.7% for FY12E.

■ Margins to remain stable...

NIM has improved by 10 bps QoQ to 3.2% in Q2FY12. YoA improved 3bps QoQ to 9.13% while CoF inched up 1bp to 6.17%. Management has guided that it will maintain NIM of 3.2% for FY12E.

Valuation

Banks asset quality could affect bottomline growth; we expect 8% cagr PAT growth over FY11-13E to ₹2439 crore. Revision in GNPA estimate has caused ABV/share to fall from ₹ 254 to ₹ 220 for FY13E. We expect RoA of 0.8% and RoE of 17.9% for FY13E. We are cutting target multiple from 1.1x to 1x FY13E ABV and hence value the bank at ₹ 220 with hold rating.

Exhibit 1: Financial Performance

₹ Crore	Q2FY12	Q2FY12E	Q2FY11	Q1FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	1661.3	1626.3	1535.8	1590.2	8.2	4.5
Other Income	500.9	469.0	509.6	484.0	-1.7	3.5
PPP	1205.2	1154.0	1130.6	1165.8	6.6	3.4
PAT	352.6	505.8	303.4	464.4	16.2	-24.1

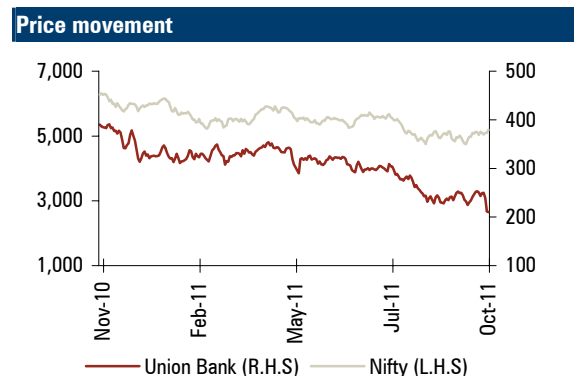
Source: Company Quarterly Presentation, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 220
Target Period	: 12 months
Potential Upside	: 5%

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
NII	4192	6216	7140	8312
PPP	3659	4305	4960	5502
PAT	2075	2082	1915	2439

Valuation summary				
	FY10	FY11	FY12E	FY13E
Net Profit (Rs crore)	2075	2082	1915	2439
EPS (Rs)	41.1	39.7	36.5	46.5
Growth (%)	20.2	-3.3	-8.0	27.4
P/E (x)	5.1	5.3	5.8	4.5
Price / Book (x)	1.2	1.0	0.9	0.8
ABVPS (Rs)	156	177	184	220
Price / Adj Book (x)	1.3	1.2	1.1	1.0
GNPA (%)	2.2	2.4	3.3	3.2
NNPA (%)	6.0	1.2	1.7	1.5
RoNA (%)	1.2	1.0	0.8	0.8
RoE (%)	26.2	20.9	16.2	17.9

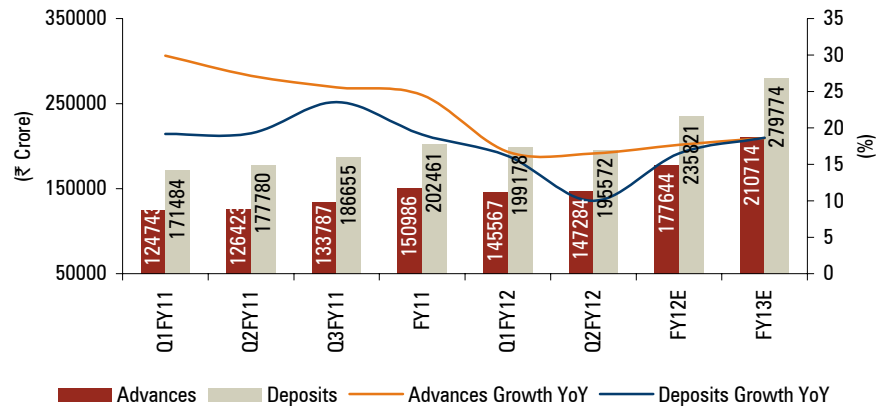
Stock data	
Market Capitalisation	₹ 11011 crore
GNPA (Q2FY12)	₹ 5136 crore
NNPA (Q2FY12)	₹ 2957 crore
NIM (Q2FY12)	3.21%
52 week H/L	427/207
Equity capital	₹ 635.3 Crore
Face value	₹ 10
DII Holding (%)	14.7
FII Holding (%)	11.9



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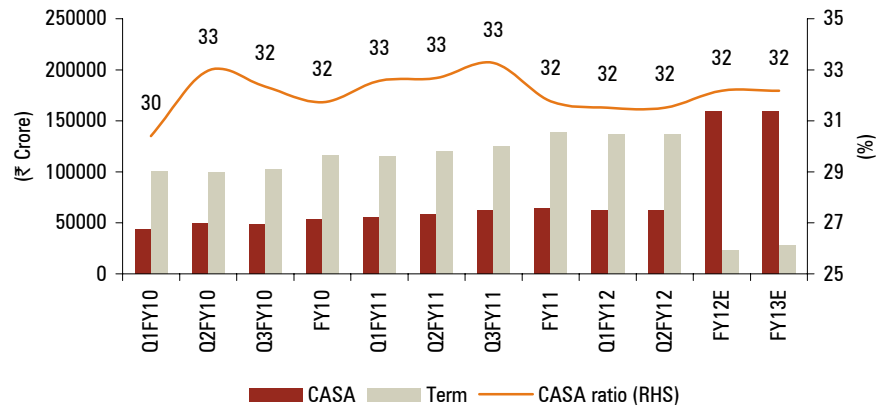
Exhibit 2: Business growth for FY12E lowered to 17%...

Advances grew 16.5% YoY to ₹147284 crore (1.2% QoQ growth) while deposits growth was moderate at 10% YoY to ₹ 195572 crore (1.8% QoQ de-growth)
 We expect the business mix to grow at a CAGR of 18% over FY11-13E



Source: Company quarterly presentation, ICICIdirect.com Research

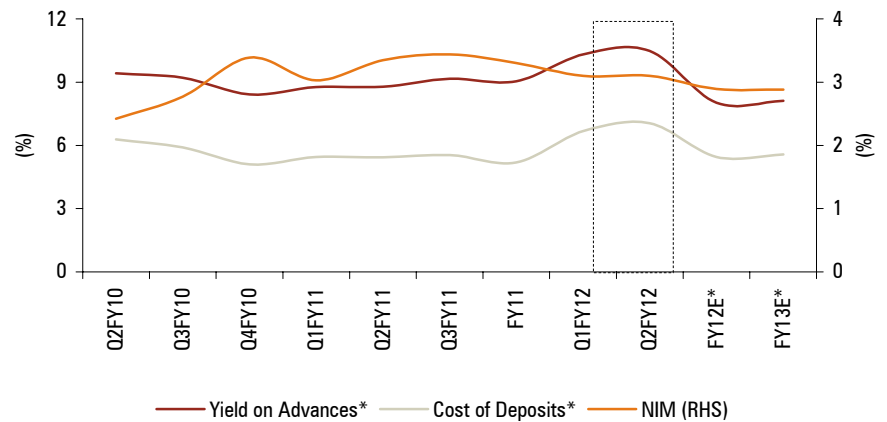
Exhibit 3: CASA ratio flat QoQ at 32%



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 4: NIM improves 10 bps sequentially to 3.2%

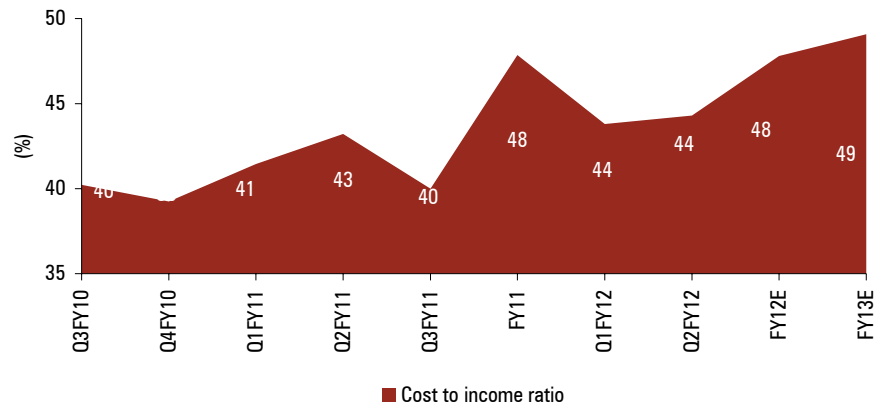
NIM improved 10 bps QoQ to 3.2% as CD ratio jumped 223 bps QoQ to 75.3%
 Management expects to maintain NIM in range of 3.1-3.2% for FY12E.



Source: Company quarterly presentation, ICICIdirect.com Research

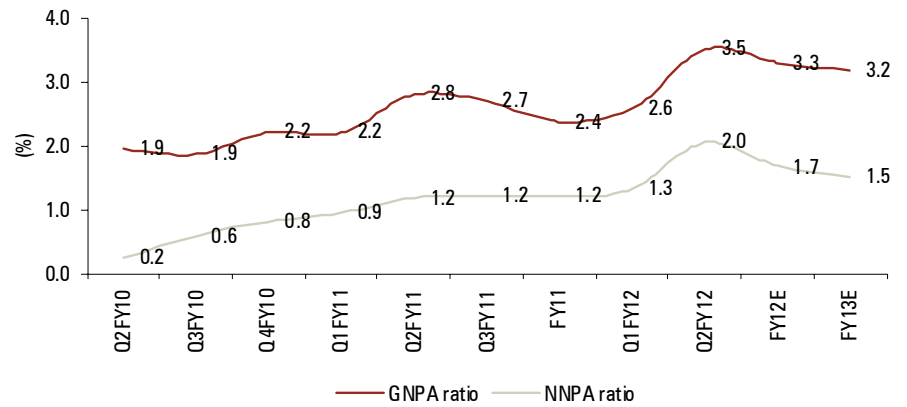
*Calculated

Exhibit 5: C/I ratio stays high at 44%



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 6: Higher slippages due to migration to system based NPA recognition ...



Source: Company quarterly presentation, ICICIdirect.com Research

GNPA rose 37% QoQ to ₹ 5136 crore as system based NPA recognition contributed ₹1300 crore to incremental slippages of ₹ 1800 crore.

Banks SEB exposure stands at 4% (~₹ 6000 crore), while MSME exposure is 16.4% (₹ 24169 crore). Bank has highest exposure towards large corporate of ~40-45%.

We expect GNPA at 3.2% and NNPA at 1.5% for FY13E.

Exhibit 7: Profit and loss account

₹ Crore	FY10	FY11	FY12E	FY13E
Interest Earned	13303	16453	19814	23426
Interest Expended	9110	10236	12674	15114
Net Interest Income	4192	6216	7140	8312
Growth (%)	9.9	48.3	14.9	16.4
Non Interest Income	1975	2039	2364	2491
Net total Income	6167	8255	9504	10803
Total Operating Expenses	2508	3950	4544	5302
Employee cost	1354	2600	2936	3461
Other operating Exp.	1153	1350	1608	1841
Operating Income	3659	4305	4960	5502
Provisions	826	1350	2263	2067
PBT	2833	2955	2697	3435
Taxes	758	873	782	996
Net Profit	2075	2082	1915	2439
Growth (%)	20.2	0.3	-8.0	27.4

Source: Company annual report, ICICIdirect.com Research

Exhibit 8: Balance sheet

₹ Crore	FY10	FY11	FY12E	FY13E
Sources of Funds				
Capital	505	635	635	635
Reserves and Surplus	9919	12129	13607	15609
Networth	10424	12765	14242	16244
Deposits	170040	202461	235821	279774
Borrowings	9215	13316	13556	13708
Other Liabilities & Provisions	5483	7443	8535	9230
Total	195162	235984	272154	318956
Uses of funds				
Fixed Assets	2305	2293	2351	2477
Investments	54404	58399	66349	78506
Advances	119315	150986	177644	210714
Other Assets	3361	4208	4440	4232
Cash with RBI & call money	15777	20098	21370	23027
Total	195162	235984	272154	318956

Source: Company annual report, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Public Sector Banks

Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	323	FY11	2488.7	45.5	7.1	1.3	0.8	15.8
		Target	352	FY12E	2549.1	46.6	6.9	1.2	0.7	14.0
Mcap (₹ Cr)	16987	Upside (%)	9.0	FY13E	3364.3	61.5	5.3	1.1	0.8	16.9

Bank of Baroda

Idirect Code	BANBAR	CMP	713	FY11	4241.7	108.0	6.6	1.5	1.3	23.5
		Target	954	FY12E	4952.8	126.1	5.7	1.3	1.3	21.4
Mcap (₹ Cr)	26062	Upside (%)	33.8	FY13E	5925.5	150.9	4.7	1.0	1.3	21.3

Dena Bank

Idirect Code	DENBAN	CMP	72	FY11	611.6	21.3	3.4	0.8	1.0	21.2
		Target	120	FY12E	726.4	25.3	2.8	0.7	0.9	18.6
Mcap (₹ Cr)	2400	Upside (%)	66.7	FY13E	847.3	29.5	2.4	0.6	0.9	18.7

Indian Overseas Bank

Idirect Code	INDOVE	CMP	90	FY11	1072.5	17.3	5.2	0.8	0.7	14.8
		Target	128	FY12E	1269.0	18.2	5.0	0.7	0.6	13.8
Mcap (₹ Cr)	4903	Upside (%)	42.2	FY13E	1655.4	23.7	3.8	0.6	0.7	15.2

OBC

Idirect Code	ORIBAN	CMP	286	FY11	1502.9	45.3	6.3	1.1	0.9	14.5
		Target	410	FY12E	1707.4	51.5	5.6	0.9	1.0	17.9
Mcap (₹ Cr)	8344	Upside (%)	43.4	FY13E	2178.5	58.5	4.9	0.8	1.0	14.5

Punjab National Bank

Idirect Code	PUNBAN	CMP	950	FY11	4433.5	124.9	7.6	1.7	1.3	22.6
		Target	1050	FY12E	4942.9	156.0	6.1	1.4	1.2	21.0
Mcap (₹ Cr)	30097	Upside (%)	10.5	FY13E	6157.9	194.4	4.9	1.1	1.3	21.8

SBI

Idirect Code	STABAN	CMP	1907	FY11	82.7	130.2	14.6	2.3	0.7	12.6
		Target	2200	FY12E	96.0	144.4	13.2	2.0	0.7	13.4
Mcap (₹ Bn)	121094	Upside (%)	15.4	FY13E	132.5	192.0	9.9	1.7	0.9	15.5

Syndicate Bank

Idirect Code	SYNBAN	CMP	101	FY11	1047.9	18.3	5.5	1.0	0.7	16.5
		Target	124	FY12E	1277.2	22.3	4.5	0.9	0.8	17.0
Mcap (₹ Cr)	5761	Upside (%)	23.4	FY13E	1612.3	28.1	3.6	0.8	0.8	19.3

Union Bank of India

Idirect Code	UNIBAN	CMP	210	FY11	2081.9	39.7	5.3	1.2	1.0	20.9
		Target	220	FY12E	1914.9	36.5	5.8	1.1	0.8	16.2
Mcap (₹ Cr)	11011	Upside (%)	4.8	FY13E	2438.6	46.5	4.5	1.0	0.8	17.9

UR* Under Review

Private Sector Banks

Axis Bank

Idirect Code	UTIBAN	CMP	1165	FY11	3388.5	83.0	14.0	2.6	1.7	20.1
		Target	1331	FY12E	4042.4	98.5	11.8	2.2	1.5	19.5
Mcap (₹ Cr)	47829	Upside (%)	14.2	FY13E	5092.8	124.0	9.4	1.8	1.6	20.7

City Union Bank

Idirect Code	CITUNI	CMP	43	FY11	215.1	5.3	8.1	1.8	1.6	23.5
		Target	52	FY12E	285.7	6.7	6.4	1.4	1.7	24.2
Mcap (₹ Cr)	1720	Upside (%)	20.9	FY13E	361.3	8.5	5.1	1.1	1.8	23.8

Dhanlaxmi Bank

Idirect Code	DHABAN	CMP	62	FY11	26.0	3.3	18.7	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	24.8	0.7	0.2	3.0
Mcap (₹ Cr)	527	Upside (%)	-	FY13E	48.9	4.1	15.2	0.6	0.2	4.1

DCB

Idirect Code	DCB	CMP	41	FY11	21.4	1.1	38.3	1.6	0.3	3.9
		Target	60	FY12E	39.9	1.8	23.1	1.3	0.5	6.1
Mcap (₹ Cr)	821	Upside (%)	46.3	FY13E	46.7	1.9	21.8	1.1	0.5	5.5

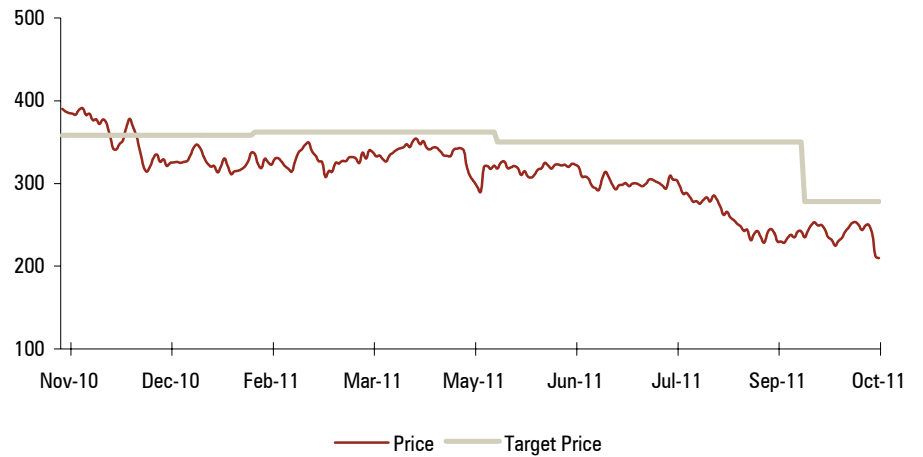
Federal Bank

Idirect Code	FEDBAN	CMP	390	FY11	587.1	34.3	11.4	1.4	1.5	13.5
		Target	472	FY12E	689.0	40.3	9.7	1.3	1.2	13.2
Mcap (₹ Cr)	6667	Upside (%)	21.0	FY13E	865.9	50.6	7.7	1.2	1.3	15.8

Continued...

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
HDFC Bank										
Idirect Code	HDFBAN	CMP	468	FY11	3926.4	16.9	27.7	4.3	1.6	16.7
		Target	532	FY12E	5074.3	21.8	21.5	3.8	1.7	18.7
Mcap (₹ Cr)	108759	Upside (%)	13.7	FY13E	6590.2	28.3	16.5	3.3	1.9	21.3
Kotak Bank										
Idirect Code	KOTMAH	CMP	471	FY11	818.3	11.1	40.5	5.0	1.9	14.5
		Target	436	FY12E	1006.0	13.7	33.0	4.4	1.9	13.9
Mcap (₹ Cr)	34707	Upside (%)	-7.4	FY13E	1221.3	16.6	27.2	3.9	1.9	14.8
South Indian Bank										
Idirect Code	SOUINO	CMP	23	FY11	292.5	2.6	9.0	1.6	1.0	18.5
		Target	26	FY12E	352.3	2.4	9.7	1.2	1.0	15.3
Mcap (₹ Cr)	2622	Upside (%)	12.1	FY13E	430.2	2.9	8.0	1.1	1.0	14.0
Yes Bank										
Idirect Code	YESBAN	CMP	287	FY11	727.1	20.9	13.7	2.6	1.5	21.1
		Target	369	FY12E	961.9	26.4	10.9	2.0	1.4	21.4
Mcap (₹ Cr)	9963	Upside (%)	28.6	FY13E	1307.7	34.2	8.4	1.6	1.5	21.5

Exhibit 9: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
1-Nov-10	Q2FY11 Result Update	378	380	Add
27-Jan-11	Q3FY11 Result Update	336	362	Buy
13-May-11	Q4FY11 Result Update	318	350	Buy
26-Jul-11	Q1FY12 Result Update	305	350	Buy
23-Sep-11	Banking Industry Vol VI	235	278	Buy
5-Oct-11	Q2FY12 Result Preview	232	278	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps / midcaps, respectively;
Buy: Between 10% and 15%/20% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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