

Reduce

CMP: ₹ 234

Target Price: ₹ 210

February 01, 2012

Market Data

Sector	Bank - Public
Market Cap (₹ Cr)	12280
Beta	0.97
O/S shares (Cr)	52.43
Free Float (Cr)	22.5
52-wk HI/LO (₹)	359/156
Avg 12m Vol ('000)	327
Face Value (₹)	10
Bloomberg	UNBK IN
Reuters	UNBK.BO

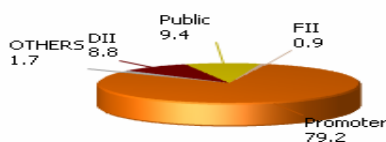
Price Performance (%)

	1m	3m	6m	12m
Absolute	38.1	5.6	(17.7)	(27.8)
Relative	(26.2)	(6.6)	12.2	23.8

Price Performance Vs Sensex



Shareholding Pattern



Valuation

During the quarter UNBK has reported another disappointing performance due to higher provisions, rise on restructured assets and sharp fall in net profits are key headwinds from the numbers. We expect further higher provisioning in future since management expects more restructuring assets for the next quarter and exposure to stressed sectors like Power, SEB and Textile continue to remain a major concern. Though Slippages has been declining over the period, however overall a large loan of around 8.8% fall under GNPA and restructured loan category remains a concern. Also recoveries and up gradation are not on soaring path. At current price, the stock quotes at 0.9x ABV FY13. We continue to maintain REDUCE with target price of ₹210. Infact we would prefer other Public sector bank like Allahabad Bank over Union Bank on the basis of stabilize balance sheet growth, less concern over Asset Quality.

Operating Matrix Remains Inviolat

UNBK's has reported underneath performance for Q3FY12. UNBK reported a net profit of ₹197 crs in Q3FY12 resulting decline of 66% on a YoY basis majorly affected due to higher provisions for Restructured Accounts and Depreciation on Investment amounting to ₹442 Cr in Q3. And on QoQ basis it declined by 17.1%. The bank's asset qualities are under pressure. The bank's CASA deposits stood at 32.5% in Q3FY12.

Subdued NII Growth:

Net Interest Income grew modestly from ₹1661cr to ₹1781Cr, an increase of 7.22% sequentially and increase of 10.2% YoY aided by 6.1% qoq loan book growth. NIM expanded from 3.21% to 3.31% sequentially primarily attributable to 77bps increase in CD ratio, steady growth in CASA. CASA deposits as % of total deposits has improved by 45bps from 32.09% to 32.54%. Cost of funds shot up by 18bps q-o-q against ~24bps increase in the blended loan yield, resulted into 10bps NIM improvement sequentially.

Stressed Assets and Single Major Account Restructured:

During the quarter bank has reported ₹566 Cr slippages vs ₹1821 cr in previous quarter on the back of increase on account of system generation NPA recognition, being lowest from past many quarters. Also out of ₹566 cr slippages, ₹200 cr of slippages arrived from Media sector. However, the slippages for the quarter are after netting off the recoveries. Hence it means the actual slippage rate should be materially higher. UNBK's Write off and Upgradation/recoveries during the quarter were ₹827 cr and ₹740 cr respectively, substantial improvement on qoq basis. Nonetheless one single major account has restructured during the quarter for amounting to ₹2042 cr owing to restructured in telecom sector, claiming total restructured book to 5.5% of total advances. GNPA stood at 3.33% and NNPA stood at 1.88% down from 2.68% and 1.21% respectively for the same quarter a year before.

Fees Income Grew Incomprehensibly:

Total non-interest income grew by 20% (yoy). Major contributor were income from core fees and Recovery in written off accounts grew by 16% and 190% yoy respectively.

CASA Ratio Improved Marginally

The bank's loan book grew by 17% yoy. Where UNBK's total deposits grew at 10% yoy. And UNBK has registered casa ratio, improvement of 45bps from 32.09% to 32.54%. Term deposits grew by 111.2% y-o-y to ₹ 138,508 crore during the quarter. The bank has perceived contraction in wholesale deposits. Also the bank has reduced certificate of Deposits from ₹9890 cr in Mar'11 to ₹4201 cr in Dec'11 which enabled the bank to contain costs, hence NIM has improved.

Break Up of Provisions

Provisions (Quarterly/Nine Monthly) (₹ in Crore)				
	Dec 11 (Q3)	Dec 10 (Q3)	Dec 11 (9M)	Dec 10 (9M)
Taxation	114	282	617	755
NPA	425	361	1285	1090
Standard Assets	100	35	91	57
Depreciation on Investment	73	6	163	-7
Others	375	-3	485	56
Total	1087	681	2641	1951

Abrupt spike of restructured assets of ₹2042 cr during the quarter, out of which around 75% pertains to one single account in telecom sector dampening the overall sentiment.

Break Up of Other Income

Bank's core fee income grew 16% y-o-y and 8% q-o-q driven by wholesale and government business.

(₹ in Cr)										
	3Q FY12	2Q FY12	1Q FY12	4Q FY11	3Q FY11	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Fee Income	323	298	252	270	278	16.2	8.4	873	806	8.3
Trading gains/(losses)	101	100	113	112	108	-6.5	1.0	314	352	-10.8
Forex gains/(losses)	78	61	60	121	77	1.3	27.9	199	166	19.9
Recovery	90	42	59	98	31	190.3	114.3	191	114	67.5
Total	592	501	484	601	494	19.8	18.2	1577	1438	9.7

NPA Profile

PCR stood at 63.1% v/s 60.5% a quarter ago. Gross slippages stood at ₹566 Cr vs ₹1821 cr in previous quarter, being lowest from past many quarters. Also out of ₹566 cr slippages, ₹200 cr of slippages arrived from Media sector.

	3Q FY12	2Q FY12	1Q FY12	4Q FY11	3Q FY11	YoY (%)	QoQ (%)
Gross NPA (₹ Cr)	5209	5136	3745	3623	3581	45.5	1.4
Net NPA (₹ Cr)	2879	2957	1893	1803	1597	80.2	-2.6
Gross NPA (%)	3.3	3.5	2.6	2.4	2.6		
Net NPA (%)	1.9	2.0	1.3	1.2	1.2		
Net NPA/Net Worth (%)	22.2	23.2	14.3	14.1	13.4		
Provision coverage (%)	63.1	60.5	68.2	67.6	70.2		

CASA Mix

Term deposits grew by 111.2% y-o-y to ₹ 138,508 crore during the quarter. The bank has perceived contraction in wholesale deposits. Also the bank has reduced certificate of Deposits from ₹9890 cr in Mar'11 to ₹4201 cr in Dec'11 which enabled the bank to contain costs, hence NIM has improved marginally.

	3Q FY12	2Q FY12	1Q FY12	4Q FY11	3Q FY11	YoY (%)	QoQ (%)
CASA (₹ Cr)	66810	62754	62768	64307	62106	7.6	6.5
CASA (%)	32.5	32.1	31.5	31.8	33.3	-73bps	45bps
Term Deposits (₹ Cr)	138500	132800	136400	138200	124600	11.2	4.3
Total Deposits (₹ Cr)	205317	195572	199200	202461	186655	10.0	5.0

Top Sector Exposure of More Than 5%
Exposure (As on 31st December 2011)

	Amount (₹ in Crore)	%
Infrastructure	23740	15.2
Retail Advances	15005	9.6
Agriculture	14856	9.5
NBFCs and HFCs	12266	7.9
Trade	8225	5.3

The management expects further close to ₹1200 Cr could fall under restructure. UNBK not having any aviation sector exposure.

Key Financials

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08
Earnings Per Share (₹)	39.71	41.08	34.18	27.46
Book NAV/Share(₹)	211.31	174.37	139.66	111.33
Dividend payout (%)	20.15	13.39	14.63	14.57
Yield on Advances (%)	10.90	11.15	12.32	12.41
Yield on Investments (%)	7.65	7.45	7.33	7.86
NIM(%)	2.71	2.21	2.45	2.41
ROA(%)	0.97	1.17	1.21	1.22
ROE(%)	20.94	26.16	27.24	26.79
Cost Income Ratio (%)	47.85	40.66	41.81	38.17
Total CAR (Basel II) (%)	12.95	12.51	13.27	11.70
Tier-1 ratio (Basel II) (%)	8.69	7.91	8.19	6.97
Core Operating Income Growth (%)	48.27	9.93	33.64	2.27
Net Profit Growth (%)	0.34	20.18	24.48	64.07
Advances Growth (%)	26.54	23.60	29.98	19.04
Investment/Deposits(x)	0.29	0.32	0.31	0.33
Credit/Deposits(%)	74.58	70.17	69.60	71.51
Interest Expended / Interest earned(%)	62.22	68.48	67.92	69.03
CASA (%)	31.76	31.73	30.07	34.86
Net NPAs (funded) to Net Advances (%)	1.19	0.81	0.34	0.17

Income Statement (₹in Crore)

DESCRIPTION	Mar-11	Mar-10	Mar-09
Interest Earned	16453	13303	11889
Other Income	2039	1975	1483
Total Income	18491	15277	13372
Interest Expended	10236	9110	8076
Net Interest Income	8255	6167	5296
Operating Expenses	3950	2508	2214
Provisions	1352	826	725
Profit Before Tax	2953	2833	2357
Taxes	871	758	630
Profit After Tax	2082	2075	1727

Balance Sheet

(₹in Crore)

DESCRIPTION	Mar-11	Mar-10	Mar-09
Liabilities			
Share Capital	635	505	505
Total Reserves	12129	9919	8235
Deposits	202461	170040	138703
Borrowings	13316	9215	8775
Total Liabilities	235984	195162	160976
Assets			
Cash and balance with Reserve Bank of India	20098	15777	15985
Investments	58399	54404	42997
Advances	150986	119315	96534
Net Block	2279	2295	2327
Capital Work in Progress	14	10	8
Other Assets	4208	3361	3124
Total Assets	235984	195162	160976

Income Statement (₹in Crore)

Quarterly	Dec-11	Dec-10	YoY%	Sep-11	QoQ%
Interest Earned	5375	4199	28.0	5110	5.2
Interest Expended	3594	2584	39.1	3449	4.2
NII	1781	1616	10.2	1661	7.2
Other Income	592	494	20.0	501	18.2
<i>Fees Income</i>	323	278	40.4	298	8.4
Operating Exp	1089	848	28.4	957	13.8
<i>As % of Net Income</i>	45.9	40.2		44.3	
Provisions For Employees	701	520	34.8	591	18.6
<i>As % of Net Income</i>	29.6	24.7		27.4	
Other Operating Exp	388	328	18.1	366	6.0
<i>As % of Net Income</i>	16.3	15.6		16.9	
Operating Profit	1284	1261	1.8	1205	6.6
<i>As % of Net Income</i>	54.1	59.8		55.7	
Provisions	973	400	143.2	623	56.2
<i>Pro for NPA</i>	425	375	13.3	495	-14.1
PBT	311	861	-63.8	582	-46.5
Tax	114	282	-59.4	230	-50.2
Profit After Tax	197	580	-66.0	352.52	-44.1
Diluted EPS	3.76	11.46	-67.2	6.72	-44.1

Research Desk.....

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Q3 FY 12 - RESULT UPDATE

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