



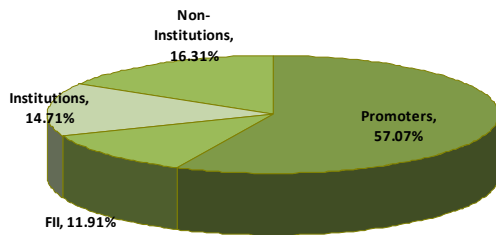
# Union Bank of India

25 October 2011

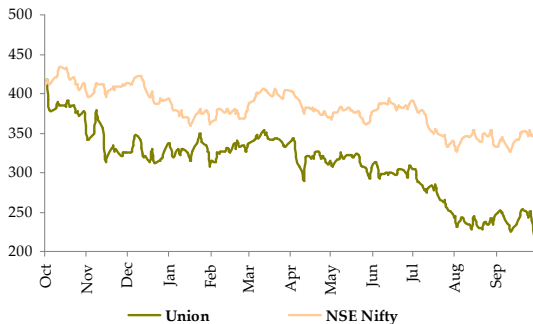
ACCUMULATE

Industry	Banking
CMP (INR)	212
Target (INR)	270
52 week High/Low (INR)	426/205
Market Cap (INR BN)	111.2
3M Avg. Daily Volumes	1004860
P/BV FY12E	0.9x

## Shareholding Pattern (%)



## Stock Performance



## Performance (%)

	1 Month	3 Months	1 Year
UNION	-15.1	-30.4	-48.4
NIFTY	5.4	-10.2	-16.5

\* Source: Ace, Unicon Research

Particulars	(INR in mn)	
	Actual	Estimates
NII	16612	16191
Operating Profit	12051	11281
PAT	3525	3433

\* Source: Ace, Unicon Research

## Analyst

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## Q2FY12 Result Highlights

Union Bank of India's (Union) net profits grew by 16% to INR 3.5 Bn (INR 3.4 Bn estimates) on YoY basis in Q2FY12. However, on sequential basis it has fallen by 24% due to higher credit cost. Slippages were at INR 18 bn (~6% annualized), out of which INR 11 bn (~20% delinquency on migrated book during the quarter) relates to system based NPA recognition. In Q2FY12 net interest income (NII) increased by 8% & 4.4% to INR 16.6 Bn on YoY & QoQ basis respectively (inline with our estimates of INR 16.1 Bn).

Union bank's advances grew by 16.5% to INR 1.26 Tn on YoY basis. Given the slackening economic environment loan book is likely to grow at 17%, down from managements earlier guidance of 19-20%. Deposits grew by 10.1% to INR 1.77 Tn on YoY basis; also CASA deposits grew by 7% YoY taking the CASA ratio to 32.09%. Stable cost of funds (up ~8 bps Q-o-Q) and 15 bps increase in yields on advances (due to recent base rate hike) Union banks NIMs expanded 11 bps to 3.21%. However, with saving bank deregulation NIMs are likely to contract from current levels in medium term.

Asset quality in the quarter deteriorated sharply as the Gross NPA ratio increased to 3.49% from 2.79% in Q2FY11. Also the Net NPA ratio increased to 2.04% from 1.18% in Q2FY11. Higher slippages during the quarter led to GNPA and NNPA surging by 37% and 57%, respectively. Out of INR 18 bn slippages during the quarter, INR 11 bn can be attributed to the system-based NPA migration. About INR 7 bn slippages came in from the agri portfolio, INR 2 bn from poverty alleviation schemes, and the balance from MSME accounts. Going ahead, management expects to increase its recovery process thereby reducing the Gross NPAs to 2.67%.

## Outlook & Valuation

Union Bank of India is expected to grow deposits & credit ~14% & ~17% in FY12E respectively and fee-based income in line with the loan-book. Going forward margins are likely to witness some pressure, on back of saving rate deregulations. On the other hand, we expect slippages to remain elevated in the coming few quarters. However, with banks focus on recovery process the NPAs are likely to fall going ahead. Given the disappointment on key metrics asset quality, lower loan & deposit growth, though we maintain our rating of Accumulate, we downgrade our target to INR 250 from INR 270.



# Union Bank of India

## Financials

	Q2 FY12	Q2 FY11	Y-o-Y	Q1 FY12	Q-o-Q
	INR in mn)				
Interest income	51104	39522	29.3	49157	3.96
Interest expense	34492	24164	42.7	33255	3.72
Net Interest Income	16612	15358	8.2	15902	4.47
Other Income	5009	5096	-1.7	4840	3.51
Total Operating income	21622	20455	5.7	20742	4.24
Operating expenditure	9571	9149	4.6	9084	5.36
Operating Profit	12051	11306	6.6	11658	3.37
Operating Profit (%)	21.5	25.3	-386 bps	21.6	-11 bps
Provisions	6228	5989	204.0	4284	45.38
PBT	5823	5317	9.50	7374	(21.04)
Tax	2297	2284	0.61	2730	(15.85)
PAT	3525	3034	16.19	4644	(24.09)
EPS (INR.)	5.55	6.01	(7.62)	7.31	(24.09)
NIMs	3.21	2.77	44 bps	3.10	11 bps

Source: Company, Unicon Research

\*Standalone



# Union Bank of India

## Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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