

22 October 2024

Union Bank of India

One-off slippage hits asset quality, but earnings to remain strong; Buy

Strong non-interest income (treasury and recovery) counterbalanced lower margins (due to penal charges reclassification), resulting in Union Bank of India's decent operating performance and better RoA. Slippages increased on account of one large corporate NPA. Ahead, we expect slippages to ease as most of the stress has been recognised. With stress from the legacy book recognised, the focus now shifts to profitability. We expect the bank to deliver a sustainable, ~1%, RoA in the medium term. We retain our Buy rating, with a 12-mth TP of Rs142, 0.8x P/ABV on the FY27e book.

One-off corporate NPA led to the high slippage rate. A large PSU account became an NPA during the quarter, which led to elevated slippages. Excluding the one-off corporate NPA, the slippage rate would have been 0.9% in Q2. The standard restructured book was 1.3% of loans (down 10bps q/q). With most of the stress already delinquent, and a low stress pipeline, slippages are expected remain below 1.5% in the medium term.

Credit growth to mirror system credit trajectory. The loan book was Rs8.9trn (up 11.6% y/y), driven by strong growth in retail and agri. With a cleaner balance sheet, adequate capital and strong deposit base, we expect credit growth to be in line with that of the system. We expect credit growth for the bank to mirror system credit growth.

Stable margins, lower provisions to drive earnings. Decent business growth, combined with stable margins and moderate credit costs would lead to strong medium-term earnings. We expect 1%+ RoA through FY25-27.

Valuation. Our Rs142 TP stems from the two-stage DDM model. This implies a ~0.8x P/ABV multiple on the FY27e book. **Risks:** Lumpy slippages in the corporate book; less-than-expected credit growth.

Key financials (YE Mar) (Rs bn)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	328	366	389	455	501
Pre-provisioning profit (Rs bn)	255	282	326	376	404
PAT (Rs bn)	84	136	168	187	196
EPS (Rs)	12.3	17.9	22.0	24.5	25.7
NIM (%)	2.9	3.0	2.9	3.1	3.0
Cost-Income (%)	46.3	46.4	44.3	43.3	44.1
RoE (%)	11.3	15.6	16.2	15.9	14.7
RoA (%)	0.7	1.0	1.1	1.2	1.1
Advances growth (%)	15.3	14.3	13.0	13.0	13.0
GNPA (%)	7.5	4.8	4.2	3.7	3.3
CRAR (%)	16.0	17.0	17.8	18.0	18.0
P / E (x)	8.8	6.1	5.0	4.5	4.3
P / BV (x)	1.0	0.9	0.8	0.7	0.6
P / ABV (x)	1.1	0.9	0.8	0.7	0.6

Source: Company, Anand Rathi Research

Rating: Buy

Target Price (12-mth): Rs.142

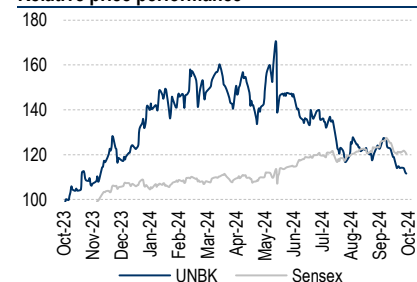
Share Price: Rs.109

Key data	UNBK IN
52-week high / low	Rs173 / 91
Sensex / Nifty	80221 / 24472
3-m average volume	\$16.6m
Market cap	Rs834bn / \$9918.3m
Shares outstanding	7634m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	74.8	74.8	77.0
- of which, Pledged		-	-
Free float	25.2	25.2	23.0
- Foreign institutions	6.9	7.4	6.8
- Domestic institutions	11.2	11.4	12.3
- Public	7.1	6.5	4.0

Estimates revision (%)	FY25e	FY26e
NII	(5.8)	(2.9)
PPoP	4.2	7.7
PAT	1.6	7.0

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	328	366	389	455	501
<i>NII growth (%)</i>	17.9	11.6	6.4	16.9	10.1
Non-interest income	146	161	196	209	223
Income	474	527	585	664	723
<i>Income growth (%)</i>	17.6	11.1	11.1	13.4	9.0
Operating expenses	219	244	259	288	319
PPoP	255	282	326	376	404
<i>PPoP growth (%)</i>	16.4	10.8	15.6	15.3	7.4
Provisions	133	68	102	126	142
PBT	121	214	224	250	262
Tax	37	78	56	63	66
PAT	84	136	168	187	196
<i>PAT growth (%)</i>	61	62	23	12	5
EPS (Rs)	12.3	17.9	22.0	24.5	25.7
DPS (Rs)	3.0	3.6	4.4	4.9	5.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	68	76	76	76	76
Reserves & surplus	715	893	1,027	1,177	1,334
Deposits	11,177	12,215	13,559	15,050	16,706
Borrowings	431	269	283	297	312
Other Liabilities & Prov.	416	465	447	439	456
Total liabilities	12,808	13,920	15,393	17,040	18,884
Advances	7,618	8,708	9,840	11,119	12,564
Investments	3,393	3,379	3,548	3,725	3,912
Cash & bank balance	1,122	1,193	1,336	1,497	1,676
Fixed & other assets	675	640	669	700	732
Total assets	12,808	13,920	15,393	17,040	18,884
No. of shares (m)	6,835	7,634	7,634	7,634	7,634
<i>Deposits growth (%)</i>	8.3	9.3	11.0	11.0	11.0
<i>Advances growth (%)</i>	15.3	14.3	13.0	13.0	13.0

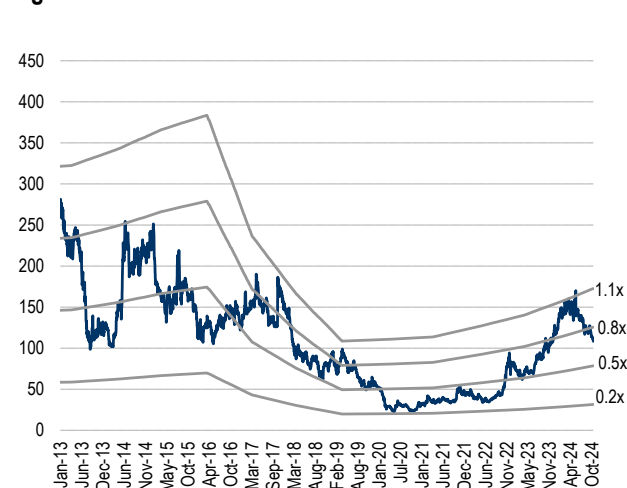
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM	2.9	3.0	2.9	3.1	3.0
<i>Other inc. / total inc.</i>	30.9	30.5	33.5	31.5	30.8
<i>Cost-income</i>	46.3	46.4	44.3	43.3	44.1
DPS (Rs)	3.0	3.6	4.4	4.9	5.1
<i>Credit-deposit</i>	68.2	71.3	72.6	73.9	75.2
<i>Investment-deposit</i>	30.4	27.7	26.2	24.8	23.4
Gross NPA	7.5	4.8	4.2	3.7	3.3
Net NPA	1.7	1.0	0.8	0.7	0.7
<i>Provision coverage</i>	78.8	79.1	80.0	80.0	80.0
BV (Rs)	114.6	127.0	144.6	164.2	184.7
Adj. BV (Rs)	101.4	118.8	137.0	156.6	177.1
CRAR (%)	16.0	17.0	17.8	18.0	18.0
- Tier 1	13.9	15.0	16.0	16.3	16.5
RoE	11.3	15.6	16.2	15.9	14.7
RoA	0.7	1.0	1.1	1.2	1.1

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs bn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Interest income	235	246	254	264	264	267
Interest expense	146	155	162	169	170	177
NII	88	91	92	94	94	90
Y/Y growth, %	16.6	9.9	6.3	14.4	6.5	-0.9
Non-interest income	39	37	38	47	45	53
Total income	127	128	129	141	139	144
Y/Y growth, %	22.5	10.7	8.8	4.6	9.2	12.1
Operating expenses	56	56	57	76	61	63
Of which, staff cost	32	31	33	48	36	36
PPoP	72	72	73	65	78	81
Y/Y growth, %	31.8	9.8	9.9	-4.3	8.4	12.4
Total provisions	20	18	17	13	28	17
PBT	52	55	55	53	50	64
Tax	19	19	19	20	14	17
PAT	32	35	36	33	37	47
Y/Y growth, %	107.7	90.0	59.9	19.0	13.7	34.4

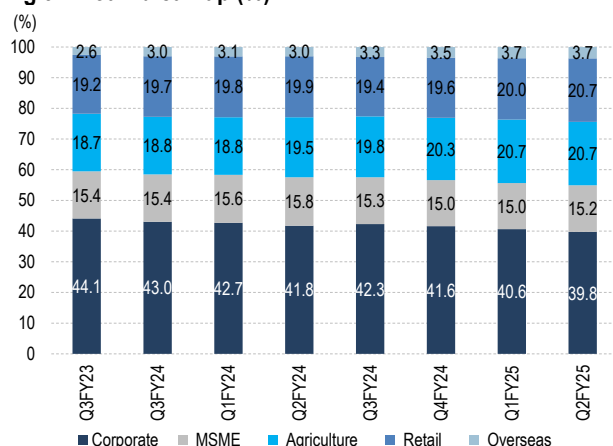
Source: Company, Anand Rath Research

Fig 8 – Balance sheet

(Rs bn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Equity capital	68	74	74	76	76	76
Reserves & Surplus	745	825	861	893	947	994
Deposits	11,281	11,376	11,725	12,215	12,242	12,419
Borrowings	315	525	374	269	255	258
Other liabilities	451	344	464	465	504	382
Liabilities	12,861	13,144	13,498	13,920	14,025	14,130
Deposits y/y growth	13.6	9.0	10.1	9.3	8.5	9.2
Deposits q/q growth	0.9	0.8	3.1	4.2	0.2	1.5
Cash and cash balances	1,081	1,096	889	1,193	1,156	1,045
Advances	7,705	8,036	8,621	8,708	8,787	8,971
Investments	3,431	3,423	3,354	3,379	3,426	3,534
Other assets	645	588	634	640	656	580
Assets	12,861	13,144	13,498	13,920	14,025	14,130
Advances y/y growth	13.9	10.5	14.0	14.3	14.0	11.6
Advances q/q growth	1.1	4.3	7.3	1.0	0.9	2.1

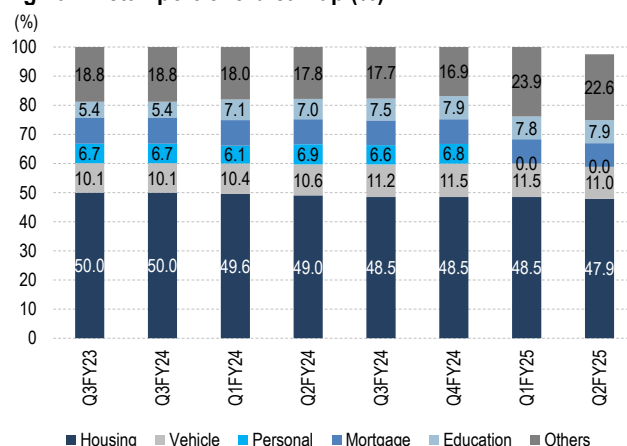
Source: Company, Anand Rath Research

Fig 9 – Loan break-up (%)



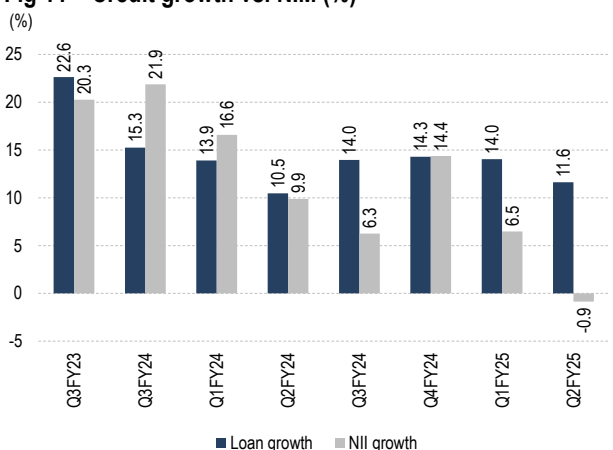
Source: Company, Anand Rathi Research

Fig 10 – Retail portfolio break-up (%)



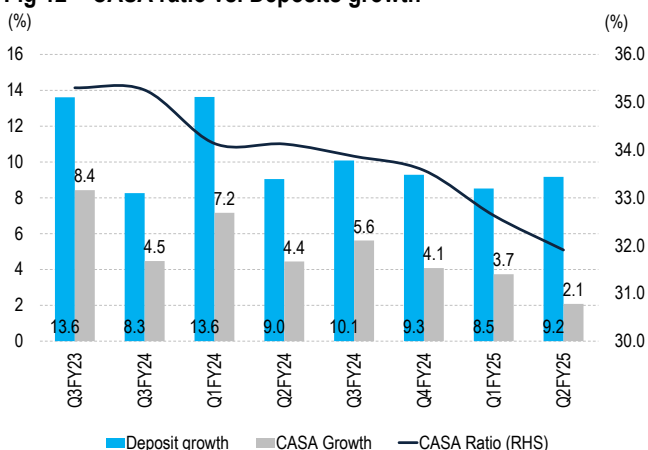
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM (%)



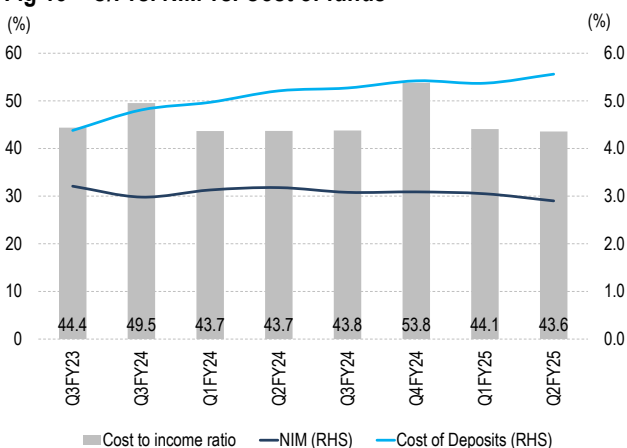
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposits growth



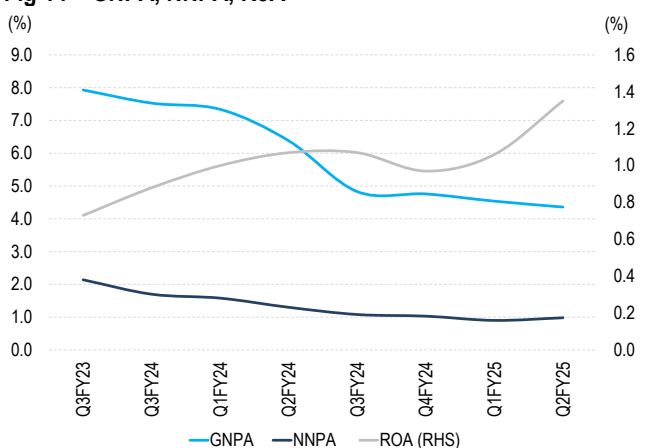
Source: Company, Anand Rathi Research

Fig 13 – C/I vs. NIM vs. Cost of funds



Source: Company, Anand Rathi Research

Fig 14 – GNPA, NNPA, RoA



Source: Company, Anand Rathi Research

Valuation

Our target price of Rs142 is based on the two-stage DDM model. This implies a ~0.8x P/ABV multiple on the FY27e book.

Fig 15 – Change in estimates

(Rs bn)	FY25e			FY26e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	389	413	(5.8)	455	468	(2.9)
Pre-provisioning profit)	326	313	4.2	376	349	7.7
PAT	168	165	1.6	187	175	7.0

Source: Anand Rathi Research

Fig 16 – du Pont analysis

(%)	FY23	FY24	FY25e	FY26e	FY27e
Interest Income / Assets	6.5	7.5	7.5	7.6	7.6
Interest Expense / Assets	3.9	4.7	4.8	4.8	4.8
Net interest income / Assets	2.7	2.7	2.7	2.8	2.8
Non-interest income / Assets	1.2	1.2	1.3	1.3	1.2
Net revenues / Assets	3.8	3.9	4.0	4.1	4.0
Operating expense / Assets	1.8	1.8	1.8	1.8	1.8
PPoP / Assets	2.1	2.1	2.2	2.3	2.2
Provision / Assets	1.1	0.5	0.7	0.8	0.8
Taxes / Assets	0.3	0.6	0.4	0.4	0.4
RoA	0.7	1.0	1.1	1.2	1.1
RoAE	11.3	15.6	16.2	15.9	14.7

Source: Company, Anand Rathi Research

Risks

- Lumpy slippages from the corporate book. Though unexpected, these would mar our forecasts.
- Less-than-expected credit growth could eat into our estimates.

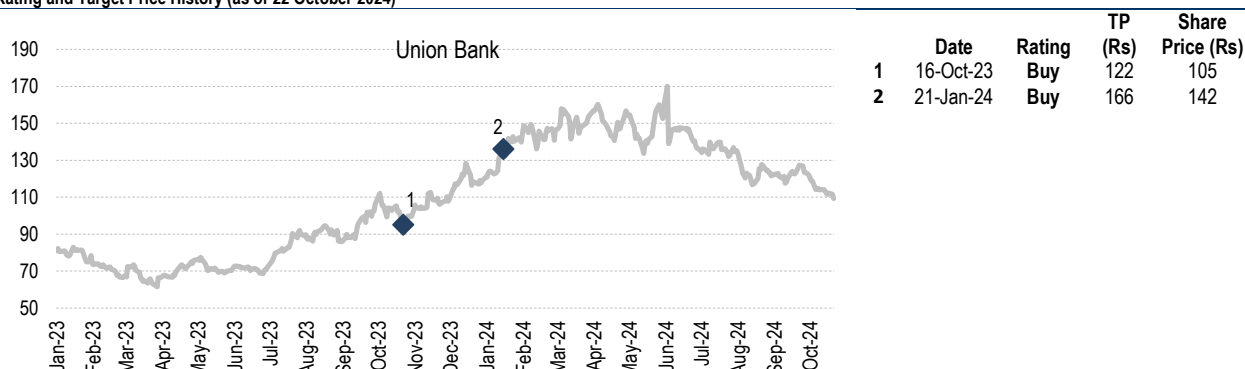
Appendix

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