

Retail Equity Research (South India Focus)

Union Bank of India

Banking

Hold

BSE CODE : 532477

NSE CODE: UNIONBANK

BLOOMBERG CODE: UNBK:IN

SENSEX : 39,353

12M Investment Period

Rating as per Mid Cap

CMP Rs74

TARGET Rs77

RETURN +4% 

(Closing: 20-05-19)

Higher credit cost to impact near to medium term

- The bank reported a net loss of Rs3,369cr in the current quarter, mainly on account of more than 3x increase in provisions sequentially.
- With an improvement in NIM, the net interest income (interest income less interest expense), has grown by 18% YoY to reach Rs2,602 cr.
- Muted growth in loans and advance by 3.7% YoY, led by retail, agriculture and MSME loans, while the deposits have witnessed a growth of 1.8% YoY, with CASA mix improving 140bps YoY to 34.7%.
- The Gross/Net NPA have marginally improved to 14.98%/6.85% in Q4FY19, compared to 15.73%/8.42% in Q4FY18, and the provision coverage ratio improved to 66.24% compared to 57.16% a year ago.
- Though a marginal improvement witnessed in asset quality and NIM, we expect higher credit cost to impact bottom line in shorter to medium term. Hence, we value at 0.5x on FY21E BVPS with Hold rating.

Sequential improvement in Net Interest Margin

The net interest margin has improved by 4bps on a sequential basis and by 37bps on a YoY basis to 2.38% in the current quarter, mainly due to decline in cost of funds. The cost of funds has declined from 4.93% in Q4FY18 and 4.95% in Q3FY19 to 4.73% in Q4FY19. At the same time, the yield on advances has marginally increased by 20bps/5bps on a YoY/QoQ basis. The management expects the NIM to be above 2.4% for FY20. The cost to income ratio has increase from 45.9% in Q4FY18 to 55.3% in Q4FY19, which was due to increase in operating expenses, which increased by 20% YoY due to employee stock option and about Rs200cr of one time expense. The banks capital adequacy ratio is currently 11.78% (Tier 1 - 9.48%, CET 1 - 8.02%), compared to 11.46% in Q4FY18.

Muted growth in loans & advances and in deposits

The total loans and advances have grown by 3.7% on a YoY basis and by 2.5% on a sequential basis. The total domestic advances constitute about 95.5% of the gross advances. The loan book growth is mainly led by retail (↑15.5% YoY), agriculture (↑7% YoY) and by MSME loans (↑6% YoY). Currently, the retail, agriculture and MSME loans together account for about 55.7% of the total loans and advances. Around 63% of the agriculture exposure is towards small & marginal farmers, whereas 75% of the MSME exposure is towards micro and small enterprises. Going forward, the management expect a credit growth to the tune of 9 to 11%. The total deposits have grown by 1.8% on a YoY basis and 3.4% on a sequential basis. Supported by growth in current account (↑6% YoY, 11% QoQ) and saving account (↑8% YoY, 4% QoQ), the CASA deposits have marked 7.8% YoY growth and the CASA mix currently stands at 34.7%.

Marginal improvement in asset quality

The Gross/Net NPA currently stands at 14.98%/6.85% compared to 15.66%/8.27% in Q3FY19 and 15.73%/8.42% in Q4FY18. In Q4FY19, the sectoral NPA exposure from retail, agriculture, micro & small, and medium %& large exposures is at 2.09%, 8.16%, 11.53% and 24.42% respectively. The slippages in from these sectors were Rs214cr, Rs740cr, Rs560cr and Rs1,761cr respectively in the current quarter. In corporate slippages, Rs931cr is from power segment, Rs185cr from roads and Rs212cr from iron & steel segment. The banks SMA2 exposure is Rs8,971cr, in which Rs2,575cr is from corporate segment and Rs3,700cr is from retail segments. The banks provision coverage ratio has increased from 57.16% last year to 66.24% in the current quarter. This was mainly on account of divergence pointed out by RBI as collateral value for some account was reduced by RBI and provisioning on some accounts were less that of other banks as listed by RBI, which resulted in a divergence of Rs2,281cr, which has been provided in the current quarter, and another Rs110cr impact was due to ageing provisions.

Outlook & Valuations

Though the marginal improvement in asset quality and net interest margins to have a positive impact, we expect the higher credit cost to keep bottom line under pressure in shorter to medium term. Hence, we value the stock at 0.5x FY21E BVPS of Rs153 and retain Hold rating with a target price of Rs77.

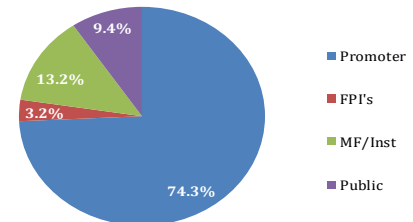
Company Background...

Union bank of India (UBI) provides various banking products and services through four segments, namely, Treasury Operations, Corporate & Wholesale Banking, Retail Banking and Other Banking Operations. It also provides various retail loans including home, vehicle, personal and education loans, loan against property and loans for senior citizens, medical practitioners, pensioners, and salary account holders. In the current quarter, the total domestic branch network of the bank is around 4,288 and the ATM count stands at 6,650.

Company Data

Market Cap (cr)	Rs12,832
Outstanding Shares (cr)	176.3
Free Float	25.7%
Dividend Yield	-
52 week high	Rs100
52 week low	Rs61
6m average volume (cr)	0.99
Beta	1.71
Face value	Rs10

Shareholding Pattern as on March - 2019



Standalone (Rs cr)	FY19A	FY20E	FY21E
Net Interest Income	10,215	11,381	12,823
Growth (%)	10	11	13
NIM(%)	2.4	2.4	2.5
Pre-Provision Profit	7,540	7,349	8,266
Adj. PAT	(2,947)	1,248	2,956
Growth (%)	-	-	137
Adj. EPS (Rs)	(17)	7	16
Growth (%)	-	-	124
BVPS	138	138	153
P/E (x)	(4)	10	5
P/B (x)	0.5	0.5	0.5
ROE (%)	(11)	5	11
ROA (%)	(0.6)	0.2	0.6

Source: Bloomberg - post event consensus

Quarterly Financials

Profit & Loss

Rs (cr)	Q4FY19	Q4FY18	YoY Growth %	Q3FY19	QoQ Growth %	Comments
Interest Income	8,350	8,112	2.9	8,478	(1.5)	
Interest Expense	5,748	5,919	(2.9)	5,983	(3.9)	
Net Interest Income (NII)	2,602	2,193	18.7	2,494	4.3	
Fee and Other Income	1,272	1,485	(14.3)	1,095	16.2	Mainly due to the impact of treasury income
Total Income	3,873	3,678	5.3	3,589	7.9	
Expenditure	2,143	1,788	19.9	1,839	16.5	
Provisions	5,766	5,669	1.7	1,617	256.6	PAT hit mainly due to higher provisioning
Profit Before Tax	(4,036)	(3,779)	-	133	-	
Tax	(667)	(1,195)	-	(20)	-	
Reported PAT	(3,369)	(2,583)	-	153	-	
Adjustment	0	0	-	0	-	
Adjusted PAT	(3,369)	(2,583)	-	153	-	
Diluted EPS (Rs)	(28.19)	(29.59)	-	1.31	-	

Source: Company

PRICE HISTORY



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
28 Jan 15	Buy	270
16 April 15	Buy	226
29 July 15	Buy	202
19 Aug 15	Buy	235
12 Feb 16	Buy	187
17 Oct 16	Hold	152
13 June 17	Buy	165
08 Nov 17	Hold	175
19 Feb 18	Hold	115
14 May 18	Hold	91
22 Jan 19	Hold	88
21 May 19	Hold	77

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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