

HOLD Union Bank of India

Your success is our success

Sub-par growth, but margins expand

BFSI - Banks ▶ Result Update ▶ October 29, 2023

TARGET PRICE (Rs): 105

Union Bank continued to report sub-par credit growth, at 10% YoY, but better loan yields led to sustained margin expansion for the 2nd quarter in a row to 3.18% (up by 5bps QoQ). This, coupled with lower provisions, led to a strong 6% beat on our PAT at Rs35bn (up 90% YoY). Given its healthy capital (CET 1 at 13% after a capital raise in a 3rd attempt), we believe Bank should accelerate loan growth, while staying focused on containing margin slippage. Bank has been exhibiting strong control on the asset quality front with GNPA ratio sharply improving by 97bps QoQ to 6.4% due to a combination of lower slippages and higher w-offs. That said, Bank still has a higher restructured pool at 1.7% which it should aim to run off at the earliest.

We hoist up FY24-26E earnings by 8-11% and expect the bank to deliver healthy RoA/RoE of 1%/15-17%. Currently, we maintain a HOLD on the stock and value it at 0.8x Sep-25E P/ABV, with new TP of Rs105/sh (Rs95 earlier). Our preferred picks in midcap PSB space remain Indian Bank and Canara Bank.

Union Bank of India: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	52,321	84,333	1,38,644	1,53,374	1,61,382
Loan growth (%)	11.8	15.3	12.6	13.3	13.9
NII growth (%)	12.5	17.9	11.1	6.4	9.3
NIM (%)	2.7	2.8	2.9	2.8	2.7
PPOP growth (%)	11.2	16.4	12.6	(0.8)	5.2
Adj. EPS (Rs)	7.9	12.3	19.5	20.7	21.8
Adj. EPS growth (%)	33.7	56.1	57.7	6.3	5.2
Adj. BV (INR)	75.2	93.2	115.5	126.8	143.7
Adj. BVPS growth (%)	12.2	27.9	19.1	14.2	13.4
RoA (%)	0.5	0.7	1.0	1.0	1.0
RoE (%)	8.3	12.2	17.3	16.3	15.1
P/E (x)	12.6	8.1	5.1	4.8	4.6
P/ABV (x)	1.4	1.1	0.9	0.8	0.7

Source: Company, Emkay Research

Growth remains sub-par, but NIM expands owing to better loan yields

Union Bank continues to report sub-par credit growth at 10% YoY/4% QoQ due to slower growth across business segments, more so in the corporate book. Bank has revamped its retail banking division, the benefit of which in terms of growth is yet to be seen. Deposit growth too remains moderate, at 9% YoY/1% QoQ, with CASA at 34%. However, NIM continued to expand for the second quarter in a row at 5bps QoQ to 3.2%, while most PSBs report marginal contraction during 2Q. With strong capital on its side (CET 1 at 13% after a capital raise in a 3rd attempt), we believe the bank should accelerate loan growth, while remaining focused on containing margin slippage.

Lower slippages + higher write-offs led to sharp decline in GNPA ratio

Bank has seen steady moderation in gross slippage - Rs26bn/1.4% of loans which, coupled with its strategy to accelerate w-offs, led to 97bps QoQ decline in GNPA ratio to 6.4%. Bank has steadily increased its specific PCR to 81% and intends to bring down the NNPA ratio, from the current 1.3% to <1%, led by continued reduction in GNPA ratio and improving PCR, which should keep LLP slightly elevated. That said, the bank still has a higher restructured pool at 1.7% and should look to run it off at the earliest.

We retain HOLD with revised TP of Rs105/share

We have revised our earnings upwards by 8-11% for FY24-26E and expect the bank to deliver healthy RoA/RoE of 1%/15-17%, respectively. Currently, we maintain a HOLD rating on the stock and value it at 0.8x Sep-25E P/ABV, with revised TP of Rs105/share (vs Rs95 earlier). Our preferred picks in the mid-cap PSB space remain Indian Bank and Canara Bank. Key risks for Union Bank: Emerging asset-quality risk in the SME space and further moderation in growth as macros deteriorate.

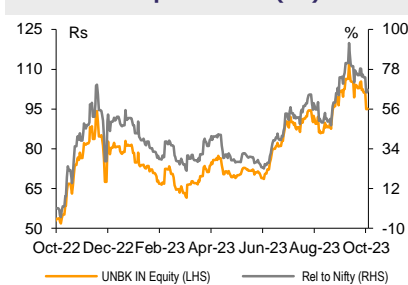
Target Price - 12M	Sep-24
Change in TP (%)	11%
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	5.1
CMP (27-Oct-23) (Rs)	99.9

Stock Data	Ticker
52-week High (Rs)	113
52-week Low (Rs)	51
Shares outstanding (mn)	7,412.4
Market-cap (Rs bn)	741
Market-cap (USD mn)	8,895
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	31
ADTV-3M (Rs mn)	2,962.0
ADTV-3M (USD mn)	35.6
Free float (%)	17.0
Nifty-50	19,047
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	77.0
FPIs/MFs (%)	2.9/12.7

Price Performance

(%)	1M	3M	12M
Absolute	(2.4)	8.5	88.8
Rel. to Nifty	1.0	12.0	75.9

1-Year share price trend (Rs)



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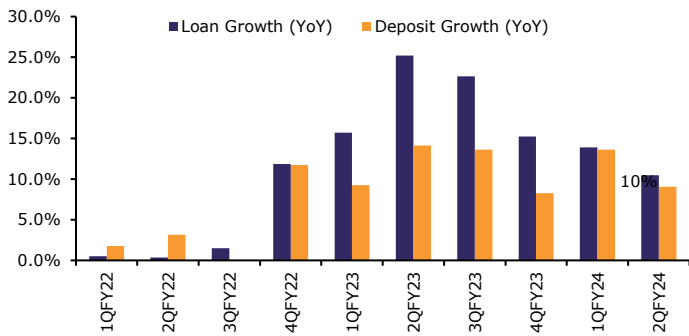
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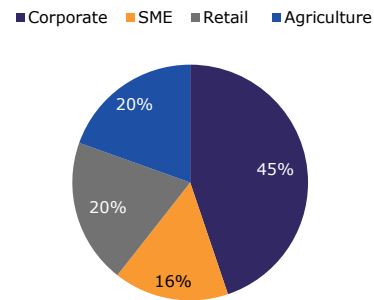
Story in Charts

Exhibit 1: Sub-par credit and deposit growth



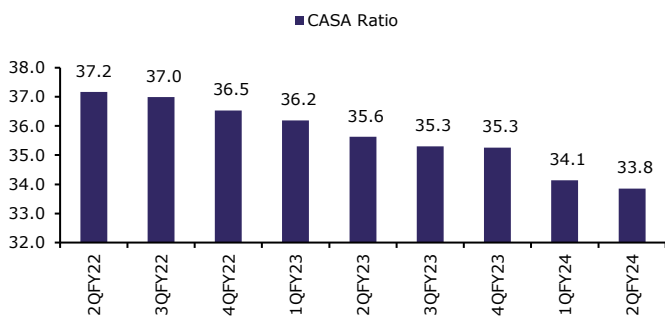
Source: Company, Emkay Research

Exhibit 2: RAM book expanding to 55% of the total loan portfolio



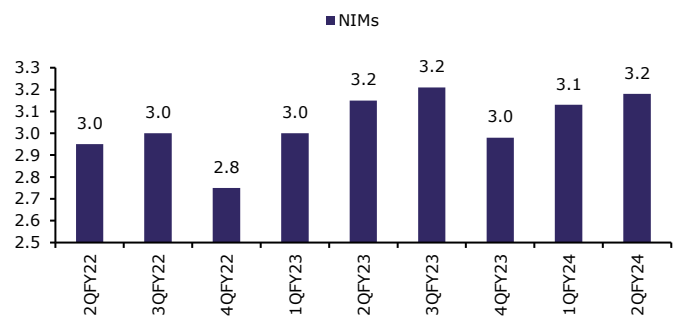
Source: Company, Emkay Research

Exhibit 3: CASA ratio slips further by ~30bps



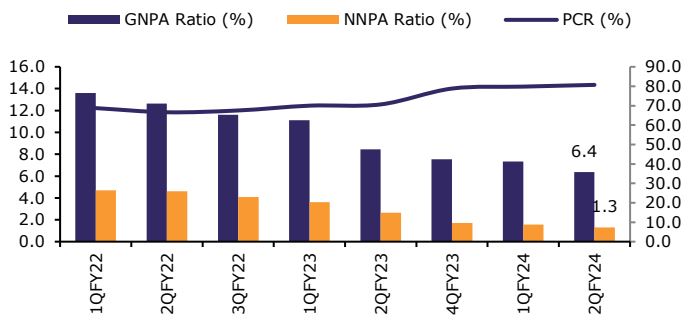
Source: Company, Emkay Research

Exhibit 4: NIMs see improvement for yet another quarter, driven by better loan yields



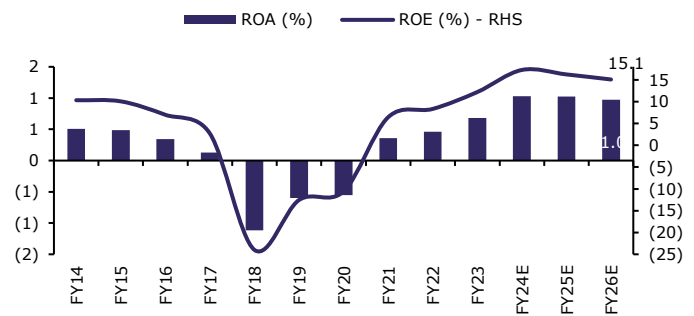
Source: Company, Emkay Research

Exhibit 5: Higher write-off and contained slippages led to a sharp fall in GNPA/NNPA ratios



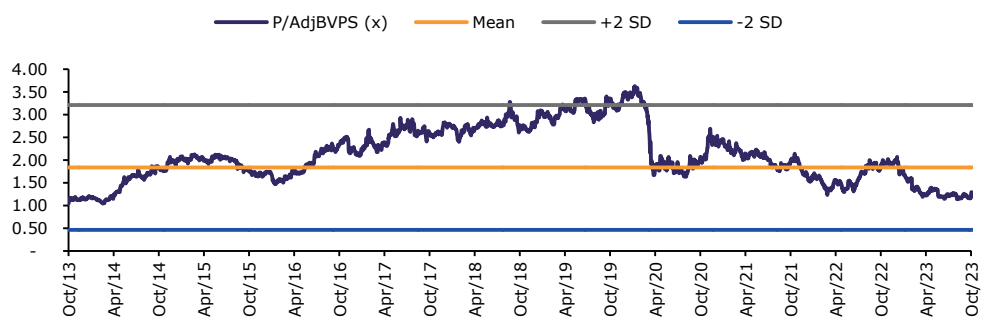
Source: Company, Emkay Research

Exhibit 6: We expect the bank to deliver healthy RoA/RoE of 1%/15-17%, respectively



Source: Company, Emkay Research

Exhibit 7: The stock trades at 0.8x Sep-25E P/ABV



Source: Bloomberg, Emkay Research

Exhibit 8: Actuals vs Estimates (Q2FY24)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,28,212	1,21,913	1,19,837	5%	7%	Higher NII & other income led to a beat
PPOP	72,208	63,541	65,617	14%	10%	Lower opex led to beat on PPOP
PAT	35,114	33,277	24,238	6%	45%	Lower provisioning partly offset by higher tax expenses led to a beat on PAT

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

Rs mn	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	1,96,817	2,08,829	2,20,045	2,34,779	2,45,870	25	5	8,07,433	9,97,605	24
Interest Exp	1,13,767	1,22,548	1,37,540	1,46,382	1,54,609	36	6	4,79,780	6,33,503	32
Net Interest Income	83,050	86,281	82,506	88,397	91,261	10	3	3,27,653	3,64,102	11
Global NIMs (reported)	3.15	3.21	2.98	3.13	3.18	3bps	5bps	2.84	2.88	4bps
Non-interest Income	32,763	32,708	52,692	39,033	36,952	13	-5	1,46,332	1,57,047	7
Operating Expenses	50,042	52,798	66,964	55,637	56,004	12	1	2,19,313	2,34,274	7
Pre Provisioning Profit	65,771	66,192	68,234	71,793	72,208	10	1	2,54,672	2,86,875	13
Provision & Contingencies	40,768	30,359	29,356	20,050	17,679	-57	-12	1,33,294	76,809	-42
PBT	25,003	35,832	38,878	51,743	54,530	118	5	1,21,377	2,10,066	73
Income Tax Expense (Gain)	6,526	13,384	11,055	19,379	19,416	198	0	37,045	71,423	93
Net Profit/(Loss)	18,477	22,448	27,823	32,364	35,114	90	8	84,333	1,38,644	64
Gross NPA (%)	8.45	7.93	7.53	7.34	6.38	-208bps	-97bps	7.53	5.60	-193bps
Net NPA (%)	2.64	2.14	1.70	1.58	1.30	-134bps	-28bps	1.70	1.06	-64bps
Deposits (Rs in bn)	10,433	10,650	11,177	11,281	11,376	9	5	11,177	12,187	9
Net Advances (Rs in bn)	7,275	7,564	7,618	7,705	8,036	10	1	7,618	8,577	13

Source: Company, Emkay Research

Exhibit 10: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Introduced	Revised	Change
Net income	4,96,742	5,21,149	5%	5,33,183	5,39,742	1%	5,77,554	5,77,670	0%
PPOP	2,56,974	2,86,875	12%	2,67,511	2,84,493	6%	2,85,009	2,99,370	5%
PAT	1,24,595	1,38,644	11%	1,41,580	1,53,374	8%	1,48,568	1,61,382	9%
EPS (Rs)	17.5	19.5	11%	19.1	20.7	8%	20.0	21.8	9%
BV (Rs)	118.0	119.1	1%	133.1	135.5	2%	148.9	152.9	3%

Source: Emkay Research

Exhibit 11: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	15.3	12.6	13.3	13.9
Deposit Growth (%)	8.3	9.0	10.9	11.6
NIM (%)	2.8	2.9	2.8	2.7
GNPA (%)	7.5	5.6	4.4	3.6
Credit Cost (%)	1.5	0.9	0.7	0.8

Source: Emkay Research

Exhibit 12: Key Ratios and Trends

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs bn)	6,346	6,695	7,164	7,286	7,737	8,040	8,099	8,185	8,472
growth (YoY)	-2.5	2.7	9.6	13.0	21.9	20.1	13.1	12.3	9.5
growth (QoQ)	-1.6	5.5	7.0	1.7	6.2	3.9	0.7	1.1	3.5
Liability Profile/CAR (%)									
Deposits (Rs bn)	9,140	9,375	10,324	9,928	10,433	10,650	11,177	11,281	11,376
growth (YoY)	3.2	6.2	11.8	9.3	14.1	13.6	8.3	13.6	9.0
growth (QoQ)	0.6	2.6	10.1	(3.8)	5.1	2.1	4.9	0.9	0.8
CASA	37.2	37.0	36.5	36.2	35.6	35.3	35.3	34.1	33.8
CA	6.3	6.4	7.0	6.0	6.3	6.3	6.6	5.9	5.4
SA	30.8	30.6	29.5	30.2	29.4	29.0	28.6	28.2	28.4
Global NIM	3.0	3.0	2.8	3.0	3.2	3.2	3.0	3.1	3.2
CAR	13.6	13.9	14.5	14.4	14.5	14.5	16.0	16.0	16.7
Tier I	11.3	11.8	12.2	12.1	12.3	11.8	13.9	13.9	14.6
Branches (No. of)	9,274	9,113	8,873	8,729	8,729	8,710	8,580	8,561	8,521
Asset Quality									
GNPA (%)	12.6	11.6	11.1	10.2	8.5	7.9	7.5	7.3	6.4
NNPA (%)	4.6	4.1	3.7	3.3	2.6	2.1	1.7	1.6	1.3
PCR (%)	66.6	67.5	69.5	69.9	70.6	74.6	78.8	79.8	80.7
Slippages (%)	4.7	2.3	3.8	2.9	2.0	1.7	1.7	1.9	1.4
ROE Decomposition (%)									
NII	2.6	2.7	2.4	2.6	2.8	2.8	2.6	2.8	2.8
Other Income	1.1	0.7	0.8	0.9	1.1	0.9	1.5	1.0	0.9
Treasury	0.4	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2
Opex	1.8	1.7	1.6	1.7	1.7	1.7	2.1	1.7	1.7
PPOP	2.3	1.9	1.9	1.9	2.2	2.2	2.2	2.2	2.2
Provisioning Cost	1.4	0.9	1.3	1.1	1.4	1.0	0.9	0.6	0.5
PBT	0.9	0.9	0.7	0.7	0.8	1.2	1.2	1.6	1.7
Tax	0.3	0.5	0.2	0.2	0.2	0.4	0.4	0.6	0.6
ROA	0.6	0.4	0.5	0.5	0.6	0.7	0.9	1.0	1.1
ROE	8.9	6.2	8.2	8.7	10.1	11.9	14.4	16.2	16.4

Source: Company, Emkay Research

Union Bank of India: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6,79,440	8,07,433	9,97,605	10,50,018	11,36,201
Interest Expense	4,01,575	4,79,780	6,33,503	6,62,726	7,12,790
Net interest income	2,77,865	3,27,653	3,64,102	3,87,292	4,23,411
NII growth (%)	12.5	17.9	11.1	6.4	9.3
Other income	1,25,248	1,46,332	1,57,047	1,52,451	1,54,259
Total Income	4,03,113	4,73,985	5,21,149	5,39,742	5,77,670
Operating expenses	1,84,381	2,19,313	2,34,274	2,55,250	2,78,300
PPOP	2,18,732	2,54,672	2,86,875	2,84,493	2,99,370
PPOP growth (%)	11.2	16.4	12.6	(0.8)	5.2
Core PPOP	1,85,691	2,43,840	2,69,544	2,62,828	2,73,373
Provisions & contingencies	1,32,938	1,33,294	76,809	65,387	83,618
PBT	85,794	1,21,377	2,10,066	2,19,106	2,15,752
Extraordinary items	0	0	0	0	0
Tax expense	33,473	37,045	71,423	65,732	54,369
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	52,321	84,333	1,38,644	1,53,374	1,61,382
PAT growth (%)	80.0	61.2	64.4	10.6	5.2
Adjusted PAT	52,321	84,333	1,38,644	1,53,374	1,61,382
Diluted EPS (Rs)	7.8	12.1	19.1	20.3	21.3
Diluted EPS growth (%)	73.8	55.4	57.9	6.4	5.2
DPS (Rs)	2.0	3.0	4.0	4.2	4.4
Dividend payout (%)	24.8	24.3	20.3	20.3	20.2
Effective tax rate (%)	39.0	30.5	34.0	30.0	25.2
Net interest margins (%)	2.7	2.8	2.9	2.8	2.7
Cost-income ratio (%)	45.7	46.3	45.0	47.3	48.2
Shares outstanding (mn)	6,834.7	6,834.7	7,412.5	7,412.5	7,412.5

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	7,95,870.6	6,09,876.6	5,03,076.1	4,46,691.1	4,12,558.1
Net NPLs	2,43,032.9	1,29,278.0	90,553.7	98,272.0	1,03,139.5
GNPA ratio (%)	11.1	7.5	5.6	4.4	3.6
NNPA ratio (%)	3.7	1.7	1.1	1.0	0.9
Provision coverage (%)	69.5	78.8	82.0	78.0	75.0
Gross slippages	2,28,773.9	1,25,186.0	1,18,667.3	1,40,962.3	1,70,665.1
Gross slippage ratio (%)	3.2	1.5	1.3	1.4	1.5
LLP ratio (%)	1.9	1.5	0.9	0.7	0.8
NNPA to networth (%)	33.6	16.6	9.6	9.2	8.5
Capital adequacy					
Total CAR (%)	14.5	15.9	16.7	16.4	15.8
Tier-1 (%)	12.2	13.8	14.8	14.8	14.4
CET-1 (%)	10.2	12.5	13.6	13.7	13.4
RWA-to-Total Assets (%)	46.0	45.4	46.0	47.0	48.8
Miscellaneous					
Total income growth (%)	(0.1)	18.5	21.1	4.1	7.3
Opex growth (%)	10.0	18.9	6.8	9.0	9.0
Core PPOP growth (%)	19.0	31.3	10.5	(2.5)	4.0
PPOP margin (%)	27.2	26.7	24.8	23.7	23.2
PAT/PPOP (%)	23.9	33.1	48.3	53.9	53.9
LLP-to-Core PPOP (%)	71.6	54.7	28.5	24.9	30.6
Yield on advances (%)	7.5	8.2	9.0	8.6	8.3
Cost of funds (%)	3.9	4.3	5.2	5.0	4.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	68,347	68,347	74,125	74,125	74,125
Reserves & surplus	6,37,414	7,14,995	8,67,869	9,91,824	11,23,889
Net worth	7,05,761	7,83,342	9,41,993	10,65,949	11,98,013
Deposits	1,03,23,926	1,11,77,163	1,21,87,430	1,35,16,256	1,50,82,200
Borrowings	5,11,791	4,31,375	4,62,646	4,54,879	4,47,736
Interest bearing liab.	1,08,35,717	1,16,08,538	1,26,50,076	1,39,71,135	1,55,29,936
Other liabilities & prov.	3,34,432	4,15,644	5,83,085	6,88,296	7,06,724
Total liabilities & equity	1,18,75,911	1,28,07,525	1,41,75,154	1,57,25,380	1,74,34,673
Net advances	66,10,047	76,18,455	85,77,423	97,20,319	1,10,68,256
Investments	34,85,074	33,92,990	35,96,680	38,90,896	42,29,206
Cash, other balances	11,95,004	11,21,505	11,62,535	11,86,371	10,87,096
Interest earning assets	1,12,90,124	1,21,32,950	1,33,36,638	1,47,97,586	1,63,84,557
Fixed assets	71,913	88,256	80,185	84,372	89,425
Other assets	5,13,873	5,86,319	7,58,331	8,43,422	9,60,691
Total assets	1,18,75,911	1,28,07,525	1,41,75,154	1,57,25,380	1,74,34,673
BVPS (Rs)	99.4	105.6	123.9	135.5	152.9
Adj. BVPS (INR)	75.2	93.2	115.5	126.8	143.7
Gross advances	71,62,884	80,99,053	89,89,945	1,00,68,738	1,13,77,674
Credit to deposit (%)	64.0	68.2	70.4	71.9	73.4
CASA ratio (%)	36.5	35.3	34.1	34.0	33.8
Cost of deposits (%)	3.8	4.1	5.1	4.9	4.8
Loans-to-Assets (%)	55.7	59.5	60.5	61.8	63.5
Net advances growth (%)	11.8	15.3	12.6	13.3	13.9
Deposit growth (%)	11.8	8.3	9.0	10.9	11.6
Book value growth (%)	(18.0)	6.3	17.3	9.4	12.8

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	12.6	8.1	5.1	4.8	4.6
P/B (x)	1.3	1.1	0.9	0.8	0.7
P/ABV (x)	1.4	1.1	0.9	0.8	0.7
P/PPOP (x)	3.1	2.7	2.6	2.6	2.5
Dividend yield (%)	2.0	3.0	4.0	4.2	4.4
DuPont-RoE split (%)					
NII/avg assets	2.5	2.7	2.7	2.6	2.6
Other income	1.1	1.2	1.2	1.0	0.9
Fee income	0.2	0.2	0.2	0.2	0.2
Opex	1.6	1.8	1.7	1.7	1.7
PPOP	1.9	2.1	2.1	1.9	1.8
Core PPOP	1.6	2.0	2.0	1.8	1.6
Provisions	1.2	1.1	0.6	0.4	0.5
Tax expense	0.3	0.3	0.5	0.4	0.3
RoA (%)	0.5	0.7	1.0	1.0	1.0
Leverage ratio (x)	18.0	17.9	16.8	15.8	15.5
RoE (%)	8.3	12.2	17.3	16.3	15.1

Quarterly data

Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	83,050	86,281	82,506	88,397	91,261
NIM (%)	3.2	3.2	3.0	3.1	3.2
PPOP	65,771	66,192	68,234	71,793	72,208
PAT	18,477	22,448	27,823	32,364	35,114
EPS (Rs)	2.70	3.28	4.07	4.74	5.14

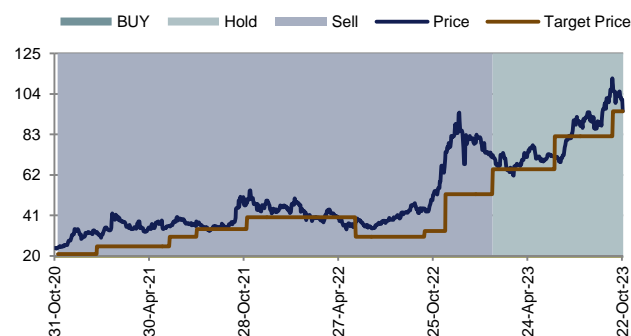
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
04-Oct-23	108	95	Hold	Anand Dama
15-Jun-23	70	82	Hold	Anand Dama
09-Mar-23	72	65	Hold	Anand Dama
16-Feb-23	72	65	Hold	Anand Dama
18-Nov-22	74	52	Sell	Anand Dama
09-Oct-22	45	33	Sell	Anand Dama
30-May-22	38	30	Sell	Anand Dama
03-Nov-21	48	40	Sell	Anand Dama
30-Jul-21	37	34	Sell	Anand Dama
08-Jun-21	36	30	Sell	Anand Dama
20-Jan-21	32	25	Sell	Anand Dama
06-Nov-20	25	21	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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