

Sector: Banks & Finance  
Result Update

	Change
Reco: <b>Reduce</b>	↔
CMP: <b>Rs. 52</b>	
Price Target: <b>Rs. 48</b>	↓

↑ Upgrade ↔ No change ↓ Downgrade

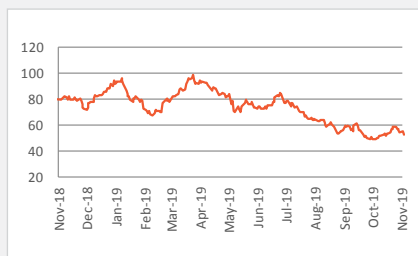
## Company details

Market cap:	Rs. 9,221 cr
52-week high/low:	Rs. 100/48
NSE volume: (No of shares)	104.6 lakh
BSE code:	532477
NSE code:	UNIONBANK
Sharekhan code:	UNIONBANK
Free float: (No of shares)	45.4 cr

## Shareholding (%)

Promoters	74.3
FII	2.8
DII	11.9
Others	11.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.7	-16.2	-30.5	-34.0
Relative to Sensex	2.2	-22.9	-36.3	-42.8

Sharekhan Research, Bloomberg

Union Bank of India posted weak numbers and a modest operating performance, while asset quality deteriorated. Net interest income (NII) grew by 16.5% y-o-y (we expected 4.4% y-o-y growth) despite muted growth in advances due to improvement in margins. Net interest margin increased by 23 bps sequentially to 2.35%. Non-interest income increased by 27% y-o-y, mainly due to strong treasury gains (up by 147.7% y-o-y) and recovery in written off accounts (up by 50% y-o-y due to a lower base). However, core fee income declined by 5.6% y-o-y. Provisions flared up due to higher NPA-related provisions (up 133% sequentially) and standard asset provisions of Rs. 570 crore (as against write-backs in Q1FY2020). The bank also has deferred fraud-related provisions worth Rs. 1,249 crore in subsequent quarters, which will be an overhang on profitability in medium term. Consequently, the bank reported a loss of Rs. 1,194 crore (we expected a PAT of Rs. 150 crore). The bank has not opted to move to new tax rate regime; it has a net deferred tax asset of Rs. 5,938 crore as on Q2FY2020. Accounts worth Rs. 4,219 crore turned NPAs as against Rs. 3,090 crore in the previous quarter. We believe that the asset quality is still volatile and continues to be an overhang on the stock's performance. We believe as the bank approaches merger activities as announced by the government earlier, overall business growth will remain muted while developments in challenges pertaining to integration needs a cautious approach. We maintain our Reduce rating on the stock with a revised price target (PT) of Rs 48.

## Key positives

- Net interest margin improved sequentially by 23 bps from 2.12% to 2.35%

## Key negatives

- Rise in fresh slippages as accounts worth Rs. 4,219 crore turned NPAs as compared to Rs. 3,090 crore of NPAs in the previous quarter
- Tepid business growth continues as loan book increased marginally by 1.7% y-o-y

## Our Call

Valuation: Union Bank of India currently trades at <1x FY21E its book value, which reflects the weak operating parameters and an overall muted business outlook. We maintain our Reduce rating on the stock with revised price target (PT) of Rs. 48.

## Key Risks

Exposure to large stressed accounts could keep overall performance subdued.

## Valuation

Particulars	FY18	FY19	FY20E	FY21E
Net Interest Income (Rs cr)	9,305	10,215	11,325	13,243
Net profit (Rs cr)	-5,247	-2,887	-255	1,190
EPS (Rs)	-44.9	-16.4	-1.4	6.8
PE (x)	-	-	-	7.7
Book value (Rs/share)	194.7	137.0	135.6	141.9
P/BV (x)	0.3	0.4	0.4	0.4
ROE (%)	-21.4	-11.2	-1.0	4.4
ROA (%)	-1.1	-0.6	0.0	0.2

Source: Company; Sharekhan Research

**Key Concall Highlights**

- ◆ **Guidance revised:** Credit growth guidance is at 7-9% for FY20E, deposit growth is expected at 9-11%, cost to income ratio guidance is at 46% and PCR is likely to be at 70%.
- ◆ **Credit cost guidance:** Credit cost guidance has been raised to ~3% from ~2.15% earlier for FY20,
- ◆ Delinquency guidance for FY20 increased from 3.5% to 4.5% mainly on account of slippage of one large HFC exposure into NPA
- ◆ **Margins guidance:** NIMs to be around 2.25% for FY20, similar to H1FY20 levels.
- ◆ Management intends to bring down GNPA ratio to ~14% and NNPA ratio to 6% by current fiscal-end.
- ◆ **Slippages breakup:** Of the total Rs. 4,219 crore, corporate slippages stood at Rs. 2080 crore of which eight accounts are above Rs. 100 crore each; the sectors include textiles, NBFCs, engineering, infrastructure, among others. Largest account that slipped into the NPA worth ~Rs. 330 crore.
- ◆ Total exposure to beleaguered HFC is ~Rs 2300 crore (fund-based) and ~ Rs. 200 crore (non-fund based)
- ◆ **SMA book:** SMA2 book stands at ~Rs. 13,186 crore for Q2FY20 and includes two accounts in power and two accounts in the infrastructure space. SMA-0 and SMA-1 have reduced sequentially.
- ◆ **ICA accounts:** Have signed ICA worth Rs. 10,770 crore in 20 accounts. Three accounts under ICA are standard, which comprise corporates to diverse business groups
- ◆ **Recoveries:** Expect recoveries from NCLT exposures to be ~Rs. 3,000-4000 crore in H2FY20.
- ◆ **RBI Divergence:** The rise in provisions was due to provisions divergence difference reconciliation. There were to three major accounts where divergence occurred, for 2 accounts the SR value reduced to 0 and other account NPA was back-dated.
- ◆ **Fraud exposure:** Union Bank flagged off a fraud in one large power segment account, along with a few other smaller accounts. They carry ~50% provisions on the same.
- ◆ **Troubled HFC exposure:** Union Bank has a ~Rs800 crore portfolio pool exposure in one HFC account, which is already an NPA.
- ◆ Merger timeline is not specified but the likely date is April 1, 2020
- ◆ **Mudra Loans:** Mudra loan book stands below Rs. 7000 crore and GNPA level is at 12% in these loans (which has increased from ~8% in March 2019).

Results					Rs cr
Particulars	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %
Interest income	9,413.4	8,538.8	10.2	8,897.6	5.8
Interest expense	6,507.5	6,045.7	7.6	6,379.4	2.0
<b>Net interest income</b>	<b>2,905.9</b>	<b>2,493.1</b>	<b>16.6</b>	<b>2,518.2</b>	<b>15.4</b>
Non-interest income	1,143.2	899.4	27.1	989.5	15.5
Net total Income	4,049.1	3,392.6	19.4	3,507.7	15.4
Operating expenses	1,808.4	1,620.7	11.6	1,621.3	11.5
<b>Pre-provisioning profit</b>	<b>2,240.6</b>	<b>1,771.9</b>	<b>26.5</b>	<b>1,886.4</b>	<b>18.8</b>
Provisions	3,858.8	1,655.6	133.1	1,519.3	154.0
Profit before tax	-1,618.1	116.3	NA	367.1	NA
Tax	-424.5	-22.7	NA	142.6	NA
<b>Profit after tax</b>	<b>-1,193.6</b>	<b>139.0</b>	<b>NA</b>	<b>224.4</b>	<b>NA</b>

Source: Company; Sharekhan Research

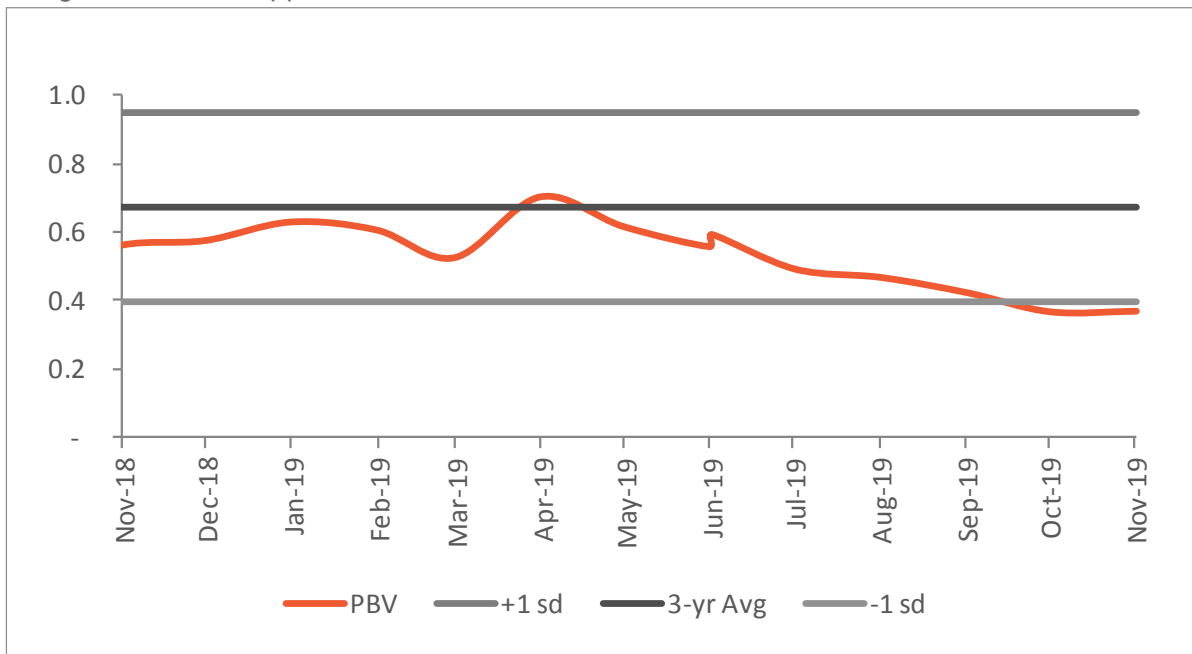
## Outlook

We believe that the asset-quality challenge continues to be the significant overhang for the bank. An increase in credit cost guidance indicates the wobbly asset quality outlook for Union Bank of India largely as stressed exposures of the bank continue to be a dampener. While the large divergence and the impact thereof affected profitability in the quarter and we believe that the asset quality woes are yet to stabilise. Other concerns pertaining to growth, provisions, impact of taxation going ahead, etc also add up to dim the overall outlook. Further we believe as the bank approaches merger that was announced by earlier, its loan growth should remain subdued as dealing with challenges pertaining to integration process, etc, could restrict the bank from improving upon its business growth. Overall, we believe the journey to improvement in operating metrics still appears further elongated.

## Valuation

Union Bank of India currently trades at <1x FY21E its book value, which reflects the weak operating parameters and an overall muted business outlook. We maintain our Reduce rating on the stock with revised price target (PT) of Rs. 48.

One year forward P/BV (x)



Source: Sharekhan Research

## Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Union Bank of India	52	0.4	0.4	-	7.7	0.0	0.2	-1.0	4.4
Punjab National Bank	60	0.6	0.5	6.2	5.3	0.2	0.2	5.8	8.8
State Bank of India	306	1.4	1.3	23.5	15.8	0.3	0.4	5.1	7.3
Bank of India	66	0.7	0.7	19.7	9.0	0.2	0.3	2.9	7.2

Source: Company, Sharekhan research

## About company

Union Bank of India is one of the largest government-owned banks of India; the government owns over 74% of its share capital. Banks total business stood at Rs 769936 crore as of September 2019 of which ~97% business is domestic business. The Bank has 4,282 branches and 6798 ATMs as of September, 2019 including 3 overseas branches at Hong Kong, DIFC (Dubai) and Sydney (Australia). In addition, the Bank has representative office at Abu Dhabi. The Bank also operates in United Kingdom through its wholly owned subsidiary, Union Bank of India (UK) Ltd.

## Investment theme

Union Bank of India has a strong branch network and an all-India presence. The bank aspires to become the largest retail and MSME bank. Hence, it has ramped up its manpower and infrastructure to ramp up retail and SME lending. The bank's asset-quality challenges have come to the fore (mainly from the corporate portfolio), whereas weak capital position remains an area of concern.

## Key Risks

- ◆ Exposure to large stressed accounts could keep overall performance subdued.

## Additional Data

### Key management personnel

Shri Kewal Handa	Chairman & Part-Time Non-Official Director
Shri Rajkiran Rai G.	Managing Director & CEO
Shri Gopal Singh Gusain	Executive Director
Shri Dinesh Kumar Garg	Executive Director
Shri Manas Ranjan Biswal	Executive Director
Mr B.S. Venkatesha	General Manager - Risk management

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	74.3
2	Life Insurance Corp of India	6.4
3	HDFC Asset Management Co Ltd	3.0
4	ICICI Prudential Asset Management	1.7
5	Vanguard Group Inc/The	0.7
6	Dimensional Fund Advisors LP	0.6
7	Norges Bank	0.6
8	Allianz SE	0.3
9	Aditya Birla Sun Life Asset Management	0.2
10	Kotak Mahindra Asset Management Co	0.2

Source: Bloomberg

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