Q1FY19 – Result Update

NALANDA RESEARCH

Aug 13, 2018

Union Bank of India

Q1FY19 Result Update

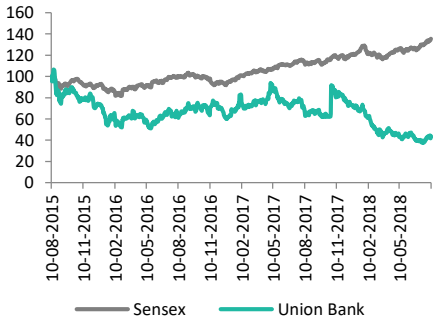
STRONG BUY *

Downside Scenario	Current Price	Price Target	Upside Scenario
	86	103	
		20% ▲	

Stock Details	
Industry	BFSI
Sensex	37869
Nifty	11429
Bloomberg Code	UNBK:IN
Eq. Cap. (Rs. Cr)	1,169
Face Value (Rs.)	10
52-w L/H	74/196
Market Cap (Cr)	10,050

Valuation Data	FY18A	FY19E	FY20E
NIM	2.1%	2.3%	2.3%
Book value	215	223	246
P/BV	0.4x	0.4x	0.3x

Union Bank Vs SENSEX



Shareholding Pattern	Jun'18	Mar'18	Jun'17
Promoters	67.4	67.4	63.4
FIIs	4.8	5.0	5.5
MF	8.5	8.5	9.3
Retail	6.4	6.1	8.7
Others	12.9	13.1	13.1
	100.0	100.0	100.0

Total assets flat QoQ; Advances up 2%; Deposits squeezed by 1%

Total assets came at 4880.5bn. Advances grew 2% QoQ to 2931bn due to 22% shrinkage in overseas book and only 4% uptick in domestic book. Domestic book constitutes 94% of total loan book. Within domestic book, retail (which contributes 17% of domestic book) grew 1% and MSME book (which contributes 21% of domestic book) grew 0.9%.Deposits squeezed 1% QoQ due to 1% shrinkage in both CASA and term deposits. CASA ratio came at 34.0% as oppose to 34.1% in previous quarter.

Improving NIM on back of improving yields

Yield on advances came at 8.2%/7.9% (domestic/global) as oppose to 7.8%/7.3% in previous quarter. Yield on investments came at 6.9%/6.8% (domestic/global) as oppose to 6.8%/6.8%. Resultant, yield on funds came at 7.1%/6.9% (domestic/global) as oppose to 6.7%/6.4%. Cost of funds were 4.9%/4.8% (domestic/global) as oppose to 4.9%/4.7%. NIM improved from 2.0%/1.9% in previous quarter to 2.3%/2.3% in current quarter.

Enhanced operational efficiency on back of lower employee cost

Cost to income ratio came at 46% as oppose to 49% in previous quarter due to 6% QoQ reduction in employee expenses.

Asset quality expected to moderate from Q3

GNPA came at 16% (v/s 15.73% in Q4) and NNPA came at 8.7% (v/s 8.4% in Q4). PCR charged was 50% (v/s 51% in Q4). Management expects strong recovery in Q3 & Q4 and has guided to cap GNPA at 12% and NNPA at 6% by Mar'19.

CRAR to be supported by government funding

CRAR came at 11.45% (v/s 11.50% in Q4). Notably, RWA to total assets slipped from 59% to 58%. Bank expects to raise capital from government to earmark credit growth of 8%.

Valuations

Bank reported gains of 130cr as oppose to 117cr in Q1FY18. RoA (annualized) came at 0.1%. We expect moderate credit growth on the back of 10% deposit growth and improvement in asset quality to enable bank to report RoA of 0.2% and 0.5% in FY19 and FY20 respectively. Stock is trading at FY20E P/BV of 0.3x, we assign STRONG BUY rating and value stock at P/BV of 0.4x implying an upside potential of 20% and a target price of INR 103.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	8,313.1	8,903.3	9,304.7	10,958.9	11,952.5
Growth%	*-2%*	*7%*	*5%*	*18%*	*9%*
Pre-provisioning profit	5,642.6	7,430.1	7,539.6	8,798.0	10,156.1
Growth%	*-3%*	*32%*	*1%*	*17%*	*15%*
Adjusted PAT	1,351.6	555.9	-5,247.4	909.8	2,741.0
Growth%	*-24%*	*-59%*	*NA*	*NA*	*201%*
EPS (INR)	19.7	8.1	-	7.8	23.5
BVPS (INR)	333.0	340.9	214.8	222.5	246.0
P/B (x)	0.4	0.5	0.4	0.4	0.3

Source: NSPL Research

** Read last page for disclaimer & rating rationale*

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Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Interest on Advances/Bills	6012	5738	5549	5%	8%
Interest on Investment	2352	2148	2203	10%	7%
Interest on bal. with RBI & Others	309	255	347	21%	-11%
Other Interest	28	13	13	121%	122%
INTEREST EARNED	**8701**	**8153**	**8112**	7%	7%
Net-Interest Income (NII)	**2626**	**2243**	**2193**	17%	20%
Other Income	1208	1415	1485	-15%	-19%
Total Operating Income	**3834**	**3657**	**3678**	5%	4%
Operating Expenses	1745	1601	1788	9%	-2%
Pre-Provisional Profits	**2089**	**2057**	**1889**	2%	11%
Provisions & Contingencies	2229	1704	5668	31%	-61%
PBT	**-140**	**353**	**-3779**	-140%	-96%
Provision for Taxes	-270	236	-1195	-214%	-77%
Adjusted Net Profit	**130**	**117**	**-2583**	11%	-105%

Source: Company, NSPL Research

- Bank's total operating income grew 5% YoY from 3657cr in Q1FY18 & 4% QoQ from 3678cr in Q4FY18 to 3834cr in this quarter on the back of 17% YoY growth in net interest income founded on 5% YoY growth in advances.
- Bank's Net Interest Income grew 17% YoY from 2243cr in Q1FY18 & 20% QoQ from 2193cr in Q4FY18 to 2626cr in this quarter. Yield on advances contracted from 8.6% in Q1FY18 to 8.2% in Q1FY19, yield on investments marginally contracted from 7.0% in Q1FY18 to 6.9% in Q1FY19 and cost of funds contracted from 5.3% in Q1FY18 to 4.9% in Q1FY19, resulting in 14bps NIM improvement to 2.3%.
- Bank's quarterly cost to income ratio expanded by 175bps YoY to 45.5% due to 25% YoY growth in other expenses.
- Bank's quarterly pre-provisioning profit grew 2% YoY from 2057cr in Q1FY18 to 2089cr.
- Bank's reported gain of 130cr in this quarter (due to utilization of DTA; leading to tax expense of -270cr) as oppose to gain of 117cr in Q1FY18 and loss of 2583 in Q4FY18.
- Gross NPA ratio came at 16.0% (v/s 12.6% in Q1FY18) and NNPA came at 8.7% (v/s 7.5% in Q1FY18). Provision coverage ratio stood at 50% (v/s 44% in Q1FY18).

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q	Comment
Deposits	405,860	375,796	408,501	8%	-1%	CASA deposits grew 3% YoY to 138035cr, term deposits grew 10% YoY to 267825cr. CASA slipped from 35.5% to 34.0%.
Borrowings	47,397	38,991	45,681	22%	4%	-
Investments	130,326	121,468	123,780	7%	5%	
Advances	293,099	278,387	288,761	5%	2%	Gross advances grew 8% YoY to 318615cr on the back of 18%/3%/5% YoY growth in retail, agricultural and MSME.
Total Assets	488,055	448,388	487,406	9%	0%	

Source: Company, NSPL Research

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Conference Call Highlights

1. Management mentioned this quarter to be an eventful one due to a) trade war; b) uptick in bond yield; c) interest rate hike; d) relatively softer crude prices and e) resolution of few big ticket cases under NCLT.
2. Total slippages came at INR 4652cr. Retail contributed INR 389cr, agricultural contributed INR 532cr, MSE contributed INR 290cr and Medium & Large contributed INR 3441cr. GNPA in retail came at 2.65%, agricultural came at 6.90%, MSE came at 12.03% and Medium & Large came at 23.25%. Bank expects slippages to drastically come down from third quarter.
3. Recoveries and up-gradation stood at INR 1624cr. Write off amount stood at INR 1426cr.
4. Bank has 10 account exposure in NCLT 1st list and 16 account exposure in NCLT 2nd list.
5. Outstanding exposure in NCLT 1st list is INR 6319cr and provisions made is of INR 4007cr. PCR stood at 63.4%.
6. Outstanding exposure in NCLT 1st list is INR 4487cr and provisions made is of INR 3096cr. PCR stood at 69%.
7. Bank is focusing on credit centralization mechanism. As of date, bank has set up centralized mechanism in 50% of centers and aims to take it to 80% by FY19.
8. Guidance: a) Credit growth of 7-8%; b) Deposit growth of 8-10%; c) CASA to be in range of 34-35%; d) NIM to hover around 2.25%; e) Cost to income to hover around 46-48%; f) Delinquency ratio to hover between 3-3.5%; g) Credit cost – 2.25%; h) GNPA to be contained under 12% with provision coverage ratio of 60%; i) RoA of 0.2% by FY19 and 0.7% by FY20.
9. Bhushan Steel: outstanding exposure amount of INR 1288cr. Recovery & up-gradation of INR 991cr. Provision charged of INR 171cr. NPA recognized of INR 717cr. Interest income write back of INR 274cr in this quarter.
10. Electro-steel: write off recovery of 161cr recognized in other income.
11. Total investment stood at INR 132901cr. HTM book stood at INR 86579cr with duration of 4.6 years. AFS book stood at 46058 with duration of 3.1 years. HFT book stood at INR 265cr.
12. CRAR came at 11.45%. Tier I stood at 8.99%.
13. Total stressed power portfolio stood at INR 23701cr. Total slippages recognized in power portfolio till date is INR 5700cr.
14. Non-fund based exposure in power portfolio stood at ~INR 1200cr. Total upgraded portfolio in power stood around INR 4700-4800cr.
15. Bank plans to raise phase I of capital from government. Bank has tabled requirement for same in the ministry.
16. Standard account in 5:25 scheme, SDR and S4A are 12, 1, 3. SDR account is non-fund based account. Outstanding amount corresponding to 5:25 is INR 3452cr and to S4A is INR 126cr.

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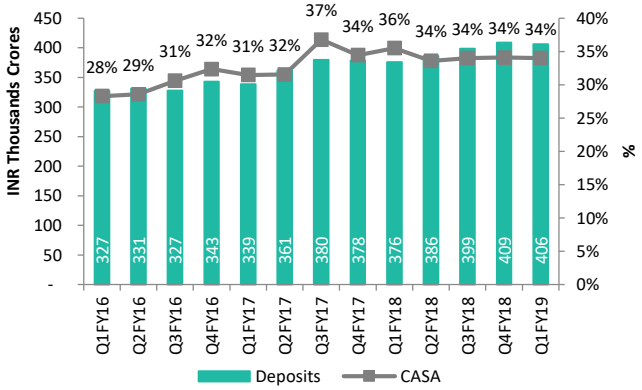
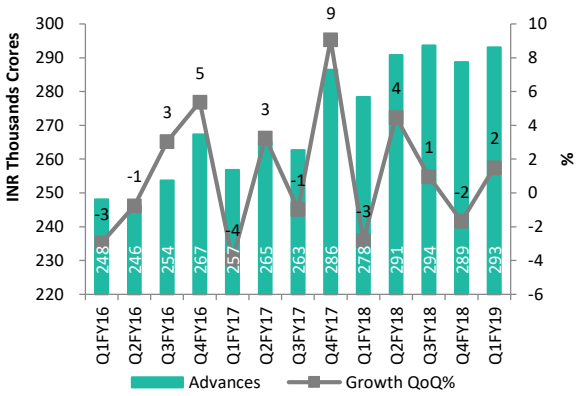
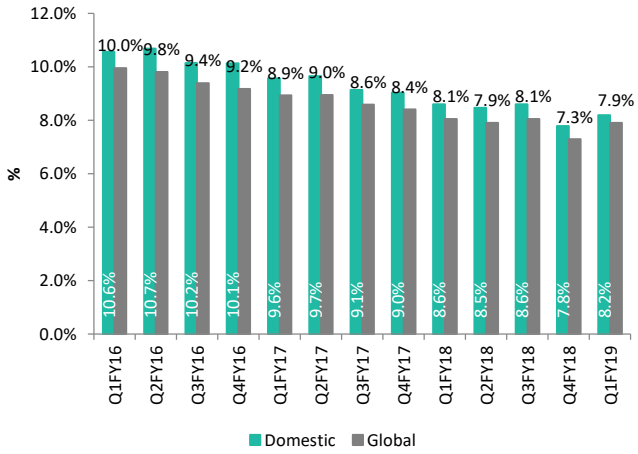
Deposits Profile



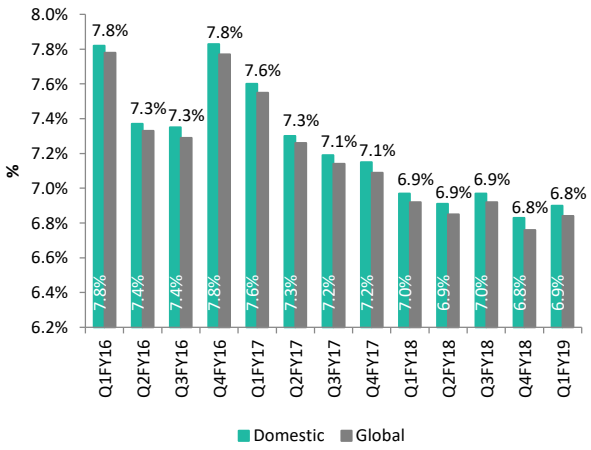
Advances Profile



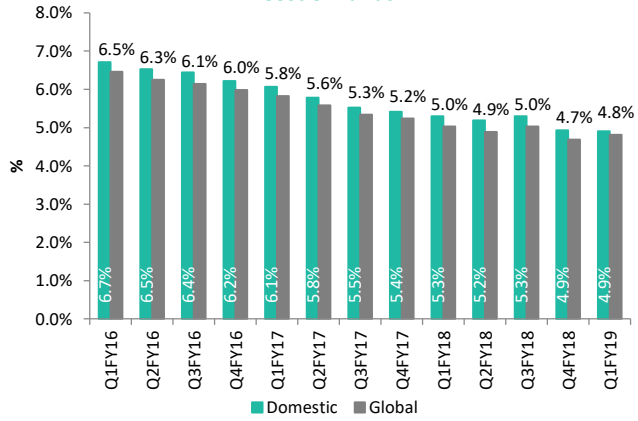
Yield on Advances



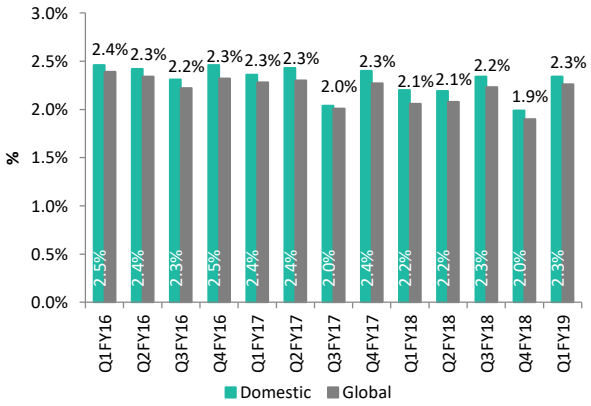
Yield on Investments



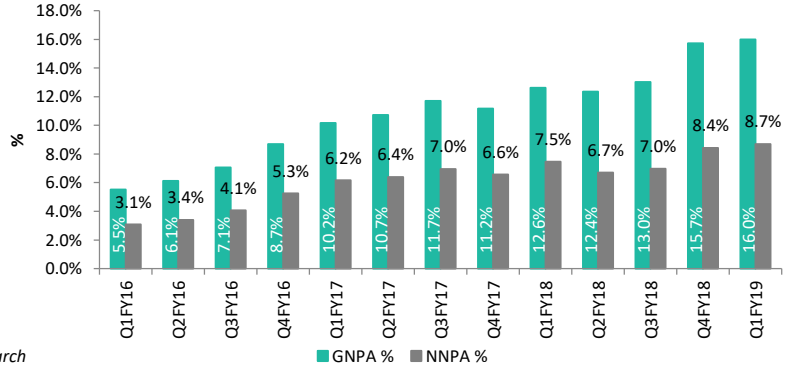
Cost of Funds



Net Interest Margin



Asset Quality



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	32,198.8	32,660.0	32,748.0	35,309.0	38,133.0
Interest expended	23,885.7	23,756.6	23,443.3	24,350.1	26,180.5
Net interest income	**8,313.1**	**8,903.3**	**9,304.7**	**10,958.9**	**11,952.5**
Non-interest income	3,631.7	4,964.6	4,989.9	5,333.7	6,855.1
Total income	**11,944.8**	**13,867.9**	**14,294.5**	**16,292.6**	**18,807.6**
Operating expenses	6,302.2	6,437.8	6,755.0	7,494.6	8,651.5
Pre-provisioning profit	**5,642.6**	**7,430.1**	**7,539.6**	**8,798.0**	**10,156.1**
Provisions	3,877.2	7,077.9	14,180.7	7,646.6	6,687.1
Profit before tax (PBT)	**1,765.4**	**352.1**	**-6,641.1**	**1,151.4**	**3,469.0**
Tax expense	413.8	-203.8	-1,393.8	241.6	728.0
Adjusted PAT	**1,351.6**	**555.9**	**-5,247.4**	**909.8**	**2,741.0**

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	687.4	687.4	1,168.6	1,168.6	1,168.6
Shareholder's Fund	22,891.2	23,976.2	25,096.8	26,006.5	28,747.5
Deposits	342,720.0	378,391.6	408,501.6	449,527.0	493,362.0
Borrowings	30,957.4	41,225.9	45,680.8	36,448.1	39,364.0
Cash & Balances with RBI	29,276.2	32,822.5	49,441.2	52,902.1	57,134.3
Investments	89,208.3	112,149.0	123,780.1	132,444.7	143,040.3
Advances	267,354.0	286,466.6	288,760.6	308,973.8	333,691.7
Total Assets	404,695.9	452,704.4	487,406.0	514,956.4	556,152.9

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	4.6%	7.1%	0.8%	7.0%	8.0%
Deposits (%)	8.2%	10.4%	8.0%	10.0%	9.8%
Total assets (%)	6.0%	11.9%	7.7%	5.7%	8.0%
NII (%)	-1.5%	7.1%	4.5%	17.8%	9.1%
Pre-provisioning profit (%)	-3.1%	31.7%	1.5%	16.7%	15.4%
Balance sheet ratios					
Credit/Deposit (%)	78.0%	75.7%	70.7%	68.7%	67.6%
CASA (%)	32.4%	34.4%	34.4%	34.4%	34.4%
Advances/Total assets (%)	66.1%	63.3%	59.2%	60.0%	60.0%
Leverage (x)	17.7x	18.9x	19.4x	19.8x	19.3x
Operating efficiency					
Cost/income (%)	52.8%	46.4%	47.3%	46.0%	46.0%
Opex/total assets (%)	1.6%	1.4%	1.4%	1.5%	1.6%
Opex/total interest earning assets (%)	1.7%	1.6%	1.5%	1.6%	1.7%
Profitability					
NIM (%)	2.2%	2.2%	2.1%	2.3%	2.3%
RoA (%)	0.3%	0.1%	-	0.2%	0.5%
RoE (%)	6.1%	2.4%	-	3.6%	9.9%
Asset quality					
Gross NPA (%)	8.7%	11.2%	15.7%	16.3%	17.1%
Net NPA (%)	5.2%	6.6%	8.4%	7.2%	7.6%
PCR (%)	42.0%	44.1%	50.7%	60.0%	60.0%
Slippage (%)	4.5%	3.8%	5.9%	2.5%	2.7%
Per share data / Valuation					
EPS (Rs.)	19.7	8.1	-	7.8	23.5
BV (Rs.)	333.0	340.9	214.8	222.5	246.0
P/BV (x)	0.4x	0.5x	0.4x	0.4x	0.3x

Source: Company, NSPL Research

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Union Bank of India			
Date	CMP (INR)	Target Price (INR)	Recommendation
August 13, 2018	86	103	Strong Buy

Rating Legend	
Strong Buy	More than 15%
Buy	5% - 15%
Hold	0 – 5%
Reduce	-5% - 0
Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

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Details of Nalanda Securities Pvt. Limited (NSPL)	• NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI • **SEBI Registration Number: INH000004617**
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
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Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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