

UNION BANK

Industry Financial
Bloomberg UNBK IN
BSE CODE 532477

Slippages Woes Continues

RATING	NEUTRAL
CMP	86
Price Target	85
Potential Upside	-1%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	152/61
Mkt Capital (Rs Cr)	10,096
Free float (%)	32%
Avg. Vol 1M (000)	9,334
No. of Shares (Cr)	117
Promoters Pledged %	0%

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3Q FY19 Results

Union Bank reported PAT growth of 10% QoQ to Rs 153 Cr. NII declined by 2% YoY due to de-growth in advances. NIM improved by 5 bps sequentially and stood at 2.23%.

Other income grew strong at 25% YoY on account of higher profit on sale of investments. Fee income grew by 11%. Treasury gain increased to Rs 110 Cr as against Rs 6 Cr a year back.

C/I ratio increased by 346 bps to 51.2% on sequential basis due to higher opex. During the quarter bank has added 5234 ATM's, which includes 5407 Micro ATM. Management expects C/I ratio in the range of 46-49% in Q4FY19.

Slippages increased by 12% sequentially to Rs 2983 Cr. The bank has exposure in thermal power plant related to IL&FS exposure amounting to Rs 900 Cr and other than IL&FS account exposure is Rs 200 Cr, out of which Rs 100 Cr has slipped and Rs 100 Cr can slip into NPA going forward. Mudra exposure is around Rs 6700 Cr, out of which 7% is NPA as of now. PCR stood at 59%.

Advances de-grew by 1% YoY on account of lower corporate growth. Corporate book share declined to 47% as against 51% in Q3FY18. Retail advances continued to gain market share and grew at 20% YoY.

Deposits growth was lower at 1% both on YoY/QoQ basis. Current account growth declined by 12% YoY, whereas saving account grew by 10% YoY. CASA ratio stood at 35.5% for the quarter.

View and Valuation

Recovery and up-gradations remained healthy despite absence of any big corporate account resolutions. However slippages remained elevated mainly on account of devolvement of non fund based exposure into NPA. Specific PCR has also improved for UNBK to 51% level but credit cost will remain elevated in near term due to ageing related NPA. We expect agriculture slippages to increase on account of loan waiver. Management expects Rs 4000 Cr of recovery from NPA accounts in 4Q FY19 which includes 2 nearly resolved power accounts under SAMADHAN scheme. IL&FS exposure of Rs 1000 Cr is likely to slip in near term if verdict from NCLT is not in favor. Increase in pace of NCLT cases resolutions will provide much support assets quality improvement as well as extra provisions will also be written back. Business growth has been subdued for Union Bank but it is expected to pick up after capital infusion. However with the delays in NCLT resolutions and hangover of IL&FS exposure we downgrade the stock to NEUTRAL and reduce the target price to Rs 85. The stock is currently trading at 0.35x BVPS FY20e.

Key Risks to our rating and target

- ❑ Further deterioration in assets quality.
- ❑ Lower Delay in resolution process under NCLT

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	8313	8903	9305	10316	10884
PPP	5722	7430	7540	7692	7726
PAT	1352	555	-5247	944	2383
NIM %	2.3	2.2	2.1	2.3	2.3
EPS (Rs)	20	8	-45	8	20
EPS growth (%)	-30	-59	-656	-118	152
ROE (%)	6.3	2.4	-21.6	3.7	8.8
ROA (%)	0.3	0.1	-1.1	0.2	0.5
BV	333	341	215	222	242
P/B (X)	0.4	0.5	0.4	0.4	0.4
P/E (x)	6.7	19.3	-2.1	10.7	4.2

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3Q FY19 Results Below Expectation.

Elevated credit cost

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	8,260	8,112	8,701	8,539	8,478	2.6%	-0.7%	32,660	32,748	0.3%
Interest Exp.	5,712	5,919	6,075	6,046	5,983	4.7%	-1.0%	23,757	23,443	-1.3%
NII	2,548	2,193	2,626	2,493	2,494	-2.1%	0.0%	8,903	9,305	4.5%
Other Income	873	1,485	1,208	899	1,095	25.4%	21.7%	4,965	4,990	0.5%
Total Income	3,421	3,678	3,834	3,393	3,589	4.9%	5.8%	13,868	14,295	3.1%
Opex Exp.	1,767	1,788	1,745	1,621	1,839	4.1%	13.5%	6,438	6,755	4.9%
PPP	1,655	1,889	2,089	1,772	1,750	5.8%	-1.2%	7,430	7,540	1.5%
Provisions	3,254	5,668	2,229	1,656	1,617	-50.3%	-2.3%	7,088	14,181	100.1%
PBT	(1,600)	(3,779)	(140)	116	133	LTP	-14.5%	343	(6,641)	-2038%
Tax	(350)	(1,195)	(270)	(23)	(20)	94%	12.1%	(213)	(1,394)	-556%
Net Profit	(1,250)	(2,583)	130	139	153	LTP	-10.2%	555	(5,247)	PTL

NIM remain stable.

Net interest margin (NIM) increased by 5 bps QoQ to 2.23% due to increase in yield. Domestic Yield on advances decreased from 7.96% to 7.93% QoQ, Yield on investment increased from 7.17% to 7.23% QoQ. Cost of deposit for the quarter increased from 5.54 % to 5.61% QoQ. Cost of fund decreased from 4.98% to 4.95%. Management expects NIM growth above 2.25% for the Q4FY19.

Total income grew by 5% QoQ to Rs 3589 Cr while Operating expenses grew by 4% QoQ to Rs 1839 Cr which led to decrease in C/I ratio from 48% to 51% QoQ. Management expects Cost to income ratio in the range of 46-49% in Q4FY19.

Lower corporate growth.

Advances de-grew by 1% YoY due to decrease in large corporate by 10% YoY. Retail advances growth increased from 17% to 20% YoY. SME for the quarter decreased from 8% to 4% YoY. Domestic advances increased by 8% YoY while overseas advances declined by 58% YoY. RAM share stood at 56%. Growth in retail book was driven by 14% growth in both home and mortgage segments. Management expects credit growth in the range of 7-8%.

Deposits increased by 1% YoY. Saving deposits grew by 10% YoY, while corporate deposits de-grew by 11% YoY. CASA ratio stood at 35.5% as against 34% a year back. CD ratio stood at 72.6%. Term deposit decreased by 1% YoY. Management expects deposit growth in the range of 8-10%.

Other income was strong.

Other income grew by 25% YoY from Rs 873 Cr to Rs 1095 Cr due to increase in core non-interest income and increase in treasury income. Fee based income grew by 11% YoY from Rs 597 Cr to Rs 660 Cr while treasury income grew by 23% YoY from Rs 155cr to Rs 191 Cr.

Slippages were elevated during the quarter.

Slippages during the quarter increased to Rs 2983 Cr as against Rs 2667 Cr a quarter back due to higher slippages in MSME segment. GNPA ratio decreased from 15.74% to 15.66% QoQ. NNPA decreased from 8.42% to 8.27% QoQ. ILFS exposure is mainly on thermal power plant i.e Rs 900 Cr and other than IL&FS account exposure is Rs 200 Cr, out of which Rs 100 Cr has slipped and Rs 100 Cr can slip into NPA going forward. Security receipt outstanding at the end of the Quarter is Rs 920 Cr. SMA 2 portfolio is around Rs 10800 Cr. Slippages for Retail and SME is expected to continue for the next 2 quarters. MSME portfolio exposure is Rs 66000 Cr out of which Rs 6700 Cr is Mudra exposure. Management is expecting Rs 4000 Cr of resolution from NCLT in Q4FY19 which will reduce GNPA. PCR increased from 58% to 59% QoQ. Credit cost increased by 54 bps to 2.69% On QoQ basis. Management expects credit cost of 2.2% and expects PCR ratio to be around 60% in Q4FY19.

Other highlights:

CAR ratio during the quarter stood at 11.4%. Tier 1 capital remains same at 9.02% on QoQ basis.

Concall Highlights

- Operating profit of the bank stood at Rs 1750cr in Q3FY19 it is driven by steady net interest income.
- Sequential growth in other income in Q3FY19 due to contribution from core income from commission and exchange, and recovery from write off account.
- Other expenses for the Q3FY19 increased due to digitalization.
- Guidelines for the credit growth 7-8%, Deposit growth 8-10%, NIM growth above 2.25% for the Q4FY19. Credit cost of 2.2% marginally upward.
- Management expects Cost to income ratio in the range of 46-49% in Q4FY19.
- Management expects PCR ratio to be around 60% in Q4FY19.
- Management expects GNPA below 12% in Q4FY19; this is depending on resolution under NCLT.
- Bank has sold 2 accounts of value Rs 381 Cr to ARC this quarter.
- MSME slippage was high in the Q3FY19.
- ILFS exposure is mainly on thermal power plant i.e Rs 900 Cr and other than IL&FS account exposure is Rs 200 Cr, out of which Rs 100 Cr has slipped and Rs 100 Cr can slip into NPA going forward.
- Security receipt outstanding at the end of the Quarter is Rs 920 Cr.
- SMA 2 portfolio is around Rs 10800 Cr.
- Management is expecting Rs 4000 Cr of resolution from NCLT in Q4FY19 which will reduce GNPA.
- Slippages for Retail and SME continue till 2 quarter.
- Power book stands at Rs 23837 Cr which includes Rs 8000 Cr from PSU which is standard and Rs 15758 Cr from Non PSU out of which Rs 5673 Cr is recognized.
- MSME portfolio exposure is Rs 66000 Cr out of which Rs 6700 Cr is Mudra exposure.
- Management expects capitalization from the government in Q4FY19.
- Branches and ATM decreased during the quarter.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	43.8	45.2	51.6	48.6	45.5	47.8	51.2	-0.41	3.46
Empl. Cost/ Tot. Exp. %	51.3	50.4	46.0	45.6	44.1	47.9	43.7	-2.27	-4.12
Other Exp/Tot. Exp.%	48.7	49.6	54.0	54.4	55.9	52.1	56.3	2.27	4.12
Provision/PPP %	82.8	183.3	196.7	300.0	106.7	93.4	92.4	-104.30	-1.05
Tax Rate %	67.0	5.3	21.9	31.6	192.3	(19.5)	(15.0)	-36.85	4.53
Int Exp./Int Inc. (%)	72.5	71.8	69.2	73.0	69.8	70.8	70.6	1.43	-0.22
Other Inc./Net Inc. %	38.7	34.4	25.5	40.4	31.5	26.5	30.5	4.99	4.00
PAT/ Net Income %	3.2	(43.3)	(36.5)	(70.2)	3.4	4.1	4.3	40.80	0.17
PAT Growth %	29.9	(966.4)	(1,302)	(2,487)	11	109.1	112.3	1,414	3.18
NII Growth % (YoY)	6.7	1.9	19.3	(8.1)	17.1	7.4	(2.1)	-21.39	-9.55
Op. Profit Growth YoY %	26.6	6.6	(10.6)	(11.5)	1.6	(8.6)	5.8	16.41	14.41

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	8.05	7.9	7.5	7.3	7.9	7.7	7.8	0.22	0.04
Yield on Total Assets	6.94	6.8	6.7	6.4	6.9	6.9	6.9	0.22	0.01
Cost Of Funds	5.84	5.7	5.6	5.5	5.5	5.5	5.6	-0.02	0.07
Cost of Deposits	5.03	4.9	4.6	4.7	4.8	4.9	4.9	0.26	0.00
NIM	2.06	2.1	2.2	1.9	2.3	2.2	2.2	0.00	0.05

Exhibit: Yield and Cost

Yield and cost on rising trend.

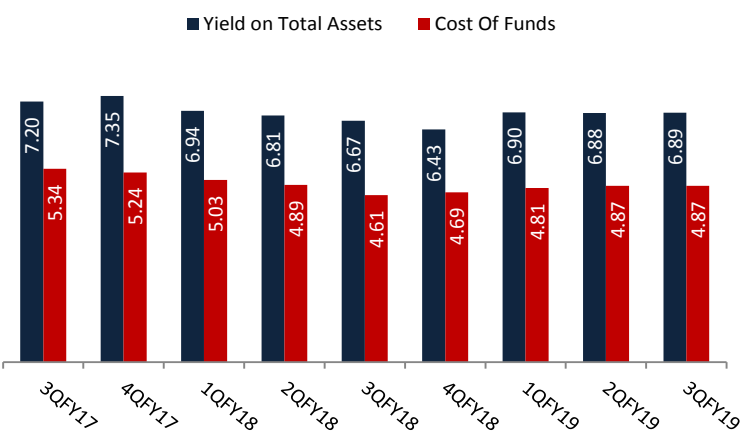
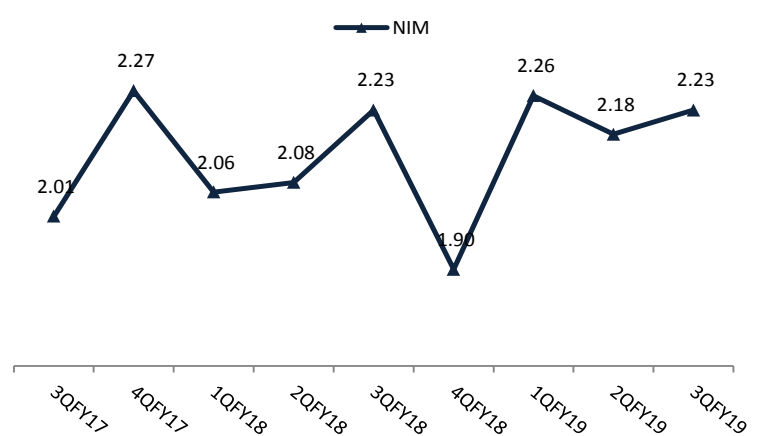


Exhibit: Net Interest Margin

NIM improves



Other Income Break Up-

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Fee income	472	641	606	549	597	1127	707	641	660
Growth YoY %	8.0	16.3	32.6	10.2	26.5	75.8	16.7	16.8	10.6
Treasury income	822	728	789	613	155	277	288	153	191
>>Profit on Sale	694	582	652	477	6	132	194	82	110
>>Exchange	128	146	137	136	150	145	95	71	81
Total Other Income	1339	1446	1415	1217	873	1485	1207	899	1095
Growth YoY %	50.1	45.0	36.1	6.8	(34.8)	2.7	(14.7)	(26.1)	25.4

Exhibit: Fee Income/Advances %

Stong fee growth.

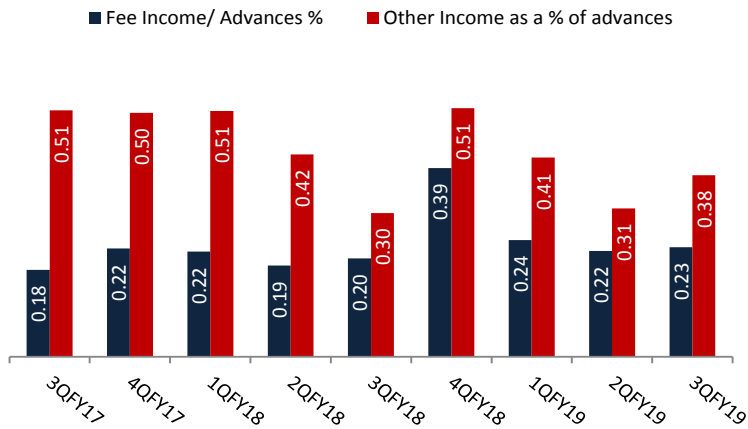
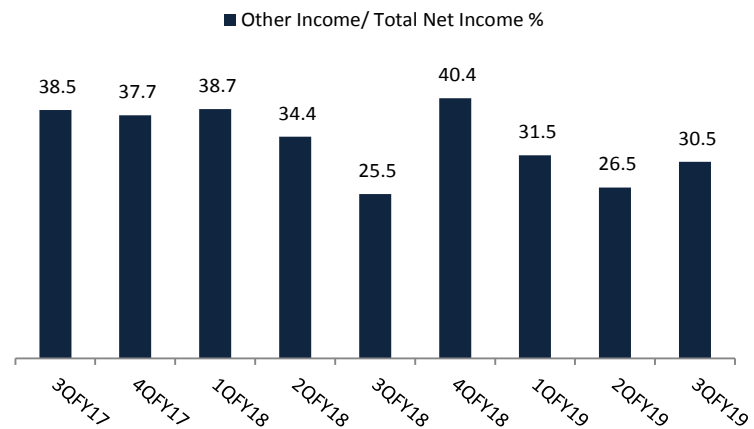


Exhibit: Other Income/ Total Income %

Other income increased.



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	37,286	38,286	40,988	49,369	50,973	50,157	49,713	21%	-1%
GNPA %	12.6	12.4	13.0	15.7	16.0	15.7	15.7	2.63	-0.08
NNPA (Rs in Cr)	20,785	19,479	20,428	24,326	25,508	24,657	24,142	18%	-2%
NNPA %	7.5	6.7	7.0	8.4	8.7	8.4	8.3	1.31	-0.15
Slippages (Rs in Cr)	4,453	2,686	4,187	10,043	4,652	2,667	2,983	-29%	12%
PCR %	51.1	56.1	57.1	57.2	56.5	57.7	58.8	1.72	1.18

Exhibit: Asset Quality

Asset quality stable.

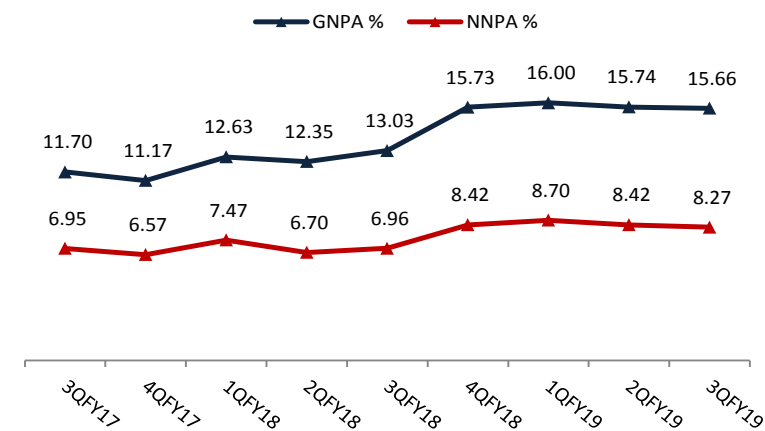


Exhibit: Provisions

PCR increased.

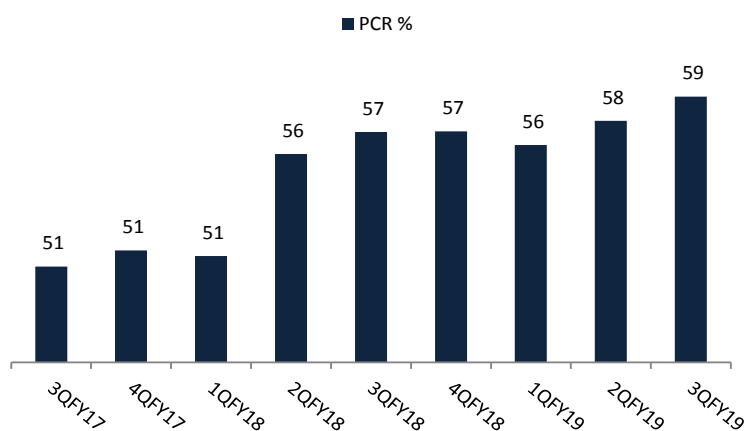


Exhibit: Advances Performance

Advances growth declined

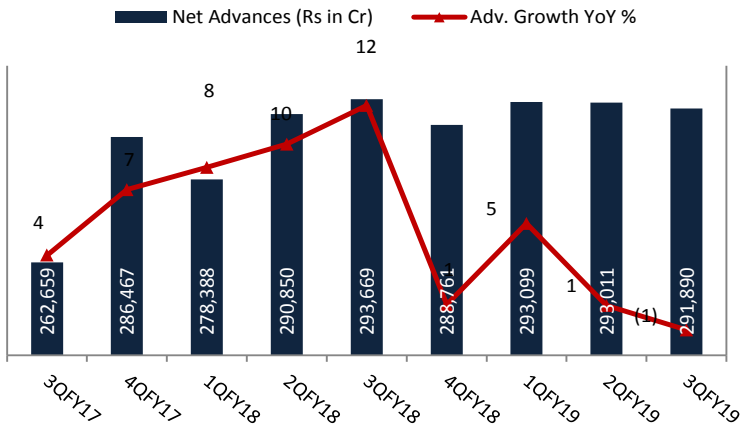


Exhibit: Advances Breakup%

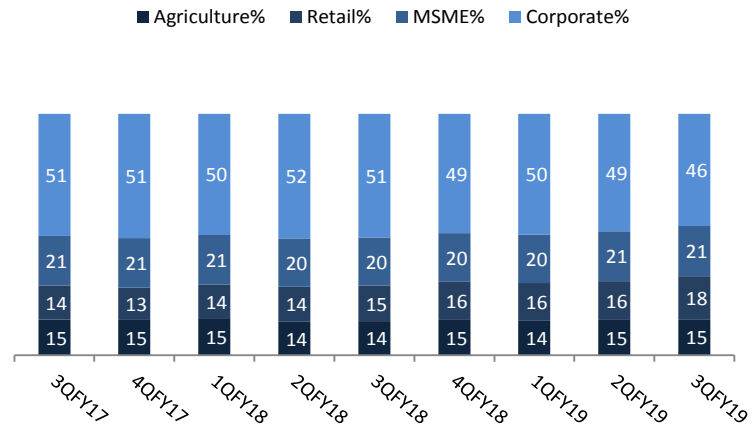


Exhibit: Deposits Performance

Deposits growth declined.

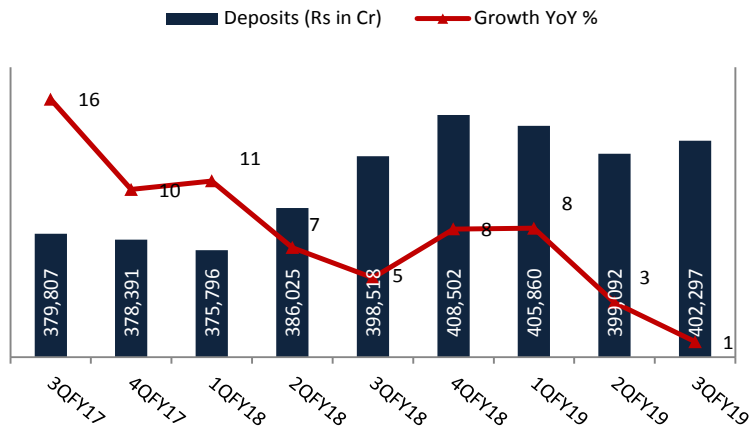


Exhibit: CASA Performance

CASA growth declined

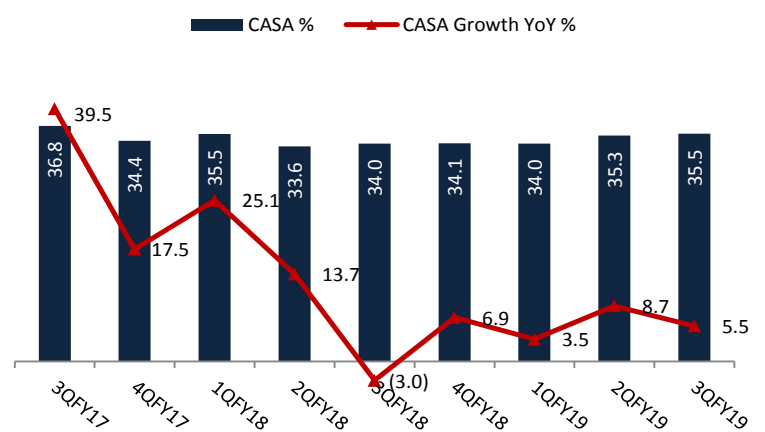


Exhibit: Credit Deposit Ratio

CD ratio moved down.

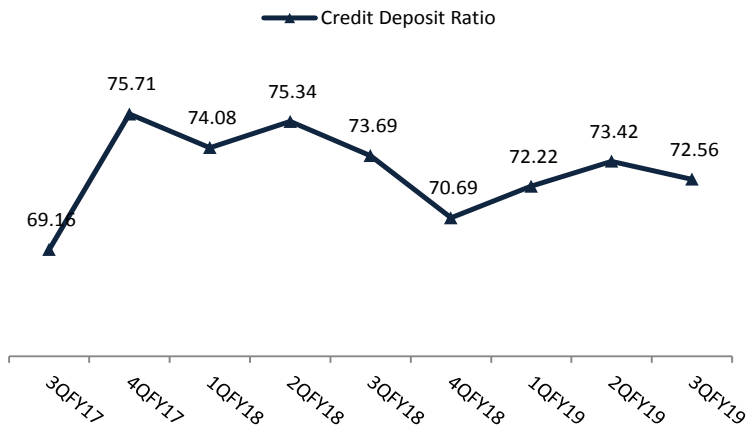
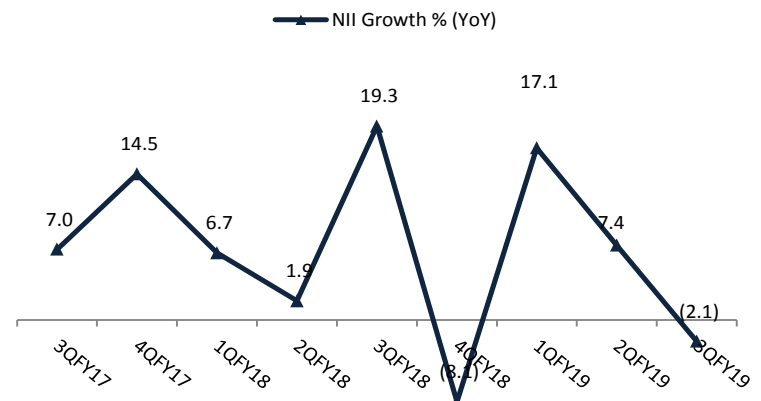


Exhibit: NII Growth

NII growth declined.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	708	741	636	687	687	1169	1169	1169
>> Equity Capital	708	741	636	687	687	1169	1169	1169
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	16588	17734	19125	22204	23289	23928	24734	27117
Networth	17296	18475	19761	22891	23435	25097	25903	28285
Deposits	263762	297676	316870	342720	378391	408501	407430	434078
Change (%)	18.3	12.9	6.4	8.2	10.4	8.0	-0.3	6.5
>> CASA Deposits	81635	87801	92650	110876	130308	139241	142600	151927
Change (%)	17.1	7.6	5.5	19.7	17.5	6.9	2.4	6.5
Borrowings	23797	29317	35360	30958	41226	45681	41965	45144
Other Liabilities & Prov.	7006	8313	9625	8127	9111	8127	8488	9043
Total Liabilities	311861	353781	381616	404696	452704	487406	483786	516551
Cash & Bank	16210	23073	22378	29277	32822	49441	39789	40912
Investments	80830	93723	94093	89208	112149	123780	122229	130223
Change (%)	29.6	16.0	0.4	-5.2	25.7	10.4	-1.3	6.5
Advances	208102	229104	255655	267354	286467	288761	297424	321218
Change (%)	17.0	10.1	11.6	4.6	7.1	0.8	3.0	8.0
Fixed Assets	2479	2608	2682	3940	3894	3833	3795	3757
Other Assets	4239	5272	6808	14917	17372	21591	20549	20441
Total Assets	311861	353781	381616	404696	452704	487406	483786	516551

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	25125	29349	32084	32199	32660	32748	34461	36723
Interest expended	17582	21470	23640	23886	23757	23443	24146	25839
Net Interest Income	7543	7879	8444	8313	8903	9305	10316	10884
Change (%)	11.0	4.5	7.2	-1.5	7.1	4.5	10.9	5.5
Other Income	2552	2822	3523	3632	4965	4990	4541	4451
Change (%)	4.2	10.6	24.9	3.1	36.7	0.5	-9.0	-2.0
>> Core Fee Income	1423	1634	1872	1879	2068	2879	2722	2823
>> Treasury Income	805	922	1333	1567	2695	1834	858	728
>> Others	324	266	318	186	202	277	961	900
Total Net Income	10095	10701	11967	11945	13868	14295	14857	15335
Operating Expenses	4512	5483	6143	6223	6438	6755	7165	7610
Change (%)	13.2	21.5	12.0	1.3	3.5	4.9	6.1	6.2
>> Employee Expenses	2755	3308	3786	3620	3434	3255	3259	3642
Pre-provisioning Profit	5583	5218	5823	5722	7430	7540	7692	7726
Change (%)	6.3	-6.5	11.6	-1.7	29.9	1.5	2.0	0.4
Provisions	2518	3149	3040	3877	7088	14181	6791	4116
Change (%)	-0.9	25.0	-3.5	27.5	82.8	100.1	-52.1	-39.4
PBT	3064	2069	2783	1765	343	-6641	901	3610
Tax	906	373	1002	414	-213	-1394	-43	1227
Profit After Tax	2158	1696	1782	1352	555	-5247	944	2383
Change (%)	20.7	-21.4	5.0	-24.1	58.9	-1045.1	118.0	152.3

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	17	10	12	5	7	1	3	8
Deposit Growth (%)	18	13	6	8	10	8	(0)	7
C/D Ratio (%)	78.9	77.0	80.7	78.0	75.7	70.7	73.0	74.0
CASA (%)	31.0	29.5	29.2	32.4	34.4	34.1	35.0	35.0
Investment/Deposit (%)	30.6	31.5	29.7	26.0	29.6	30.3	30.0	30.0
CRAR (%)	10.1	10.8	10.2	10.6	11.8	11.5	11.9	12.8
>> Tier 1 (%)	6.8	7.5	7.5	8.1	9.0	9.1	9.3	10.3
>> Tier 2 (%)	3.4	3.3	2.7	2.4	2.8	2.4	2.6	2.5

Assets Quality Metrics

Gross NPA (Rs)	5,380	9,564	13,031	24,171	33,712	49,369	46,502	40,918
Gross NPA (%)	3.0	4.1	5.0	8.7	11.2	15.7	14.4	11.7
Net NPA (Rs)	3,353	5,340	6,919	14,026	18,833	24,326	20,926	17,186
Net NPA (%)	1.6	2.3	2.7	5.3	6.6	8.4	7.0	5.4
Slippages (%)	2	3	3	5	5	8	5	3
Provision Coverage (%)	65	60	59	51	51	57	61	64
Provision/Average Advances (%)	1.3	1.4	1.3	1.5	2.6	4.9	2.3	1.3

Margin Metrics

Yield On Advances (%)	9.9	9.9	9.9	9.0	8.3	7.9	8.2	8.4
Yield On Investment (%)	7.9	8.3	7.6	8.2	8.6	7.4	7.5	7.4
Yield on Earning Assets (%)	9.2	9.4	9.4	8.8	8.1	7.5	7.6	7.8
Cost Of Deposits (%)	6.8	7.1	7.0	6.7	6.1	5.5	5.4	5.7
Cost Of Funds (%)	6.5	6.9	6.8	6.5	5.9	5.3	5.3	5.5
Spread (%)	2.7	2.5	2.6	2.3	2.2	2.2	2.3	2.4
NIM (%)	2.8	2.5	2.5	2.3	2.2	2.1	2.3	2.3

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	70.0	73.2	73.7	74.2	72.7	71.6	70.1	70.4
Fee Income/NII (%)	18.9	20.7	22.2	22.6	23.2	30.9	26.4	25.9
Cost to Income (%)	44.7	51.2	51.3	52.1	46.4	47.3	48.2	49.6
Cost on Average Assets (%)	1.6	1.6	1.7	1.6	1.5	1.4	1.5	1.5
Tax Rate (%)	29.6	18.0	36.0	23.4	(62.1)	21.0	(4.8)	34.0

Valuation Ratio Metrics

EPS (Rs)	36.2	26.9	28.0	19.7	8.1	(44.9)	8.1	20.4
Change (%)	11.4	(25.7)	4.3	(29.9)	(58.9)	(656)	118.0	(152.3)
ROAE (%)	13.5	9.5	9.3	6.3	2.4	(21.6)	3.7	8.8
ROAA (%)	0.8	0.5	0.5	0.3	0.1	(1.1)	0.2	0.5
Dividend Payout (%)	22.1	14.9	21.4	9.9	-	-	-	-
Dividend yield (%)	3.7	2.9	3.8	1.5	-	-	-	-
Book Value (Rs)	289.9	292.9	311.0	333.0	341.1	214.8	221.7	242.0
Change (%)	9	1	6	7	2	(37)	3	9
P/B (X)	0.8	0.5	0.5	0.4	0.5	0.4	0.4	0.4
P/E (X)	6.0	5.1	5.6	6.7	19.3	(2.1)	10.7	4.2

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	8.8	8.7	8.2	7.6	7.0	7.1	7.3
<i>Interest expended</i>	6.5	6.4	6.1	5.5	5.0	5.0	5.2
<i>Net Interest Income</i>	2.4	2.3	2.1	2.1	2.0	2.1	2.2
<i>Non-Fund Based Income</i>	0.8	1.0	0.9	1.2	1.1	0.9	0.9
>> <i>Core Fee Income</i>	0.5	0.5	0.5	0.5	0.6	0.6	0.6
>> <i>Trading and Other Income</i>	0.4	0.4	0.4	0.7	0.4	0.4	0.3
<i>Core Operating Income</i>	2.9	2.8	2.6	2.6	2.6	2.7	2.7
<i>Total Income</i>	3.2	3.3	3.0	3.2	3.0	3.1	3.1
<i>Total Operating Expenses</i>	1.6	1.7	1.6	1.5	1.4	1.5	1.5
>> <i>Employee Expenses</i>	1.0	1.0	0.9	0.8	0.7	0.7	0.7
>> <i>Other Expenses</i>	0.7	0.6	0.7	0.7	0.7	0.8	0.8
<i>Operating Profit</i>	1.6	1.6	1.5	1.7	1.6	1.6	1.5
<i>Provisions</i>	0.9	0.8	1.0	1.7	3.0	1.4	0.8
<i>Others</i>	-	-	(0.0)	-	-	-	-
<i>PBT</i>	0.6	0.8	0.4	0.1	(1.4)	0.2	0.7
<i>Tax</i>	0.1	0.3	0.1	(0.0)	(0.3)	(0.0)	0.2
<i>PAT/RoAA</i>	0.5	0.5	0.3	0.1	(1.1)	0.2	0.5
<i>Equity Multiplier (x)</i>	18.6	19.2	18.4	18.5	19.4	19.0	18.5
<i>ROAE</i>	9.5	9.3	6.3	2.4	(21.6)	3.7	8.8

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Analyst's ownership of the stocks mentioned in the Report	NIL
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