NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

UNION BANK

"BUY"
14th June, 2013

ANNUAL REPORT UPDATE

Result update	BUY
CMP	207
Target Price	252
Previous Target Price	-
Upside	22
Change from Previous	-

Market Data	
BSE Code	532477
NSE Symbol	UNIONBANK
52wk Range H/L	288/150
Mkt Capital (Rs Cr)	12400
Average Daily Volume	10.7 Lakh
Nifty	5699

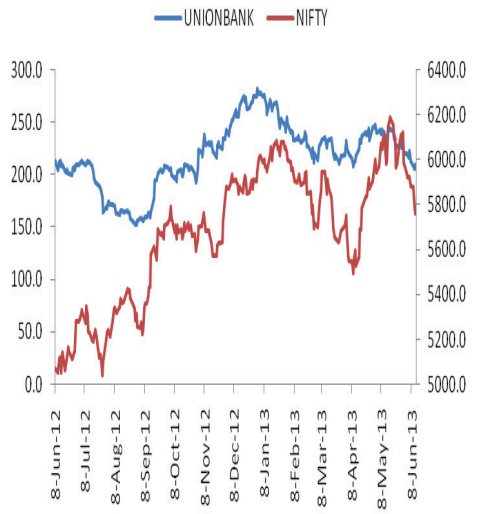
Stock Performance

	1M	1yr	YTD
Absolute	-10.1	-1.2	32.4
Rel.to Nifty	-6.4	-14.9	22.8

Share Holding Pattern-%

	Current	4QFY13	3QFY1
Promoters	57.9	54.4	54.4
FII	10.6	10.3	10.2
DII	18.0	20.5	20.0
Others	13.5	14.8	15.5

Union Bank Vs Nifty



Union Bank witnessed deterioration in asset quality and but due to strong recovery effort, NPA come to comfortable level. Moreover bank's management continue to guided that GPA is at highest and will declined years to come. Any sign of improving asset quality will provide alpha to stock in our view. Bank is trading at lower side of valuation band. We recommend but with price target of Rs.252

During the year Union Bank reported total revenue growth of 9.2% to Rs.10095cr from Rs.9241 cr in last year. Revenue growth was driven 11% increased of NII. But bank reported other income growth of 4.2% to Rs.2552 cr from Rs. 2448 cr in previous year. Interest income grew by 19.4% and income from investment grew by 24.1% over the previous year. Yield on loan of the bank stood at 9.2% versus 9% in previous year and yield on investment stood at 7% versus 7.3% in FY12. Therefore total yield on fund remain stable at 8.3%. Cost of deposits increased by 23.5% over the previous year taking cost of deposits to 6.3% from 6% in last year. Cost of fund increased to 6.1% in FY13 from 5.9% in FY12. Net profit margin (on calculated basis) of the bank declined to 2.5% from 2.7% in previous year.

Non-interest income increased from Rs. 2,448 cr in FY 12 to Rs 2,552 cr in FY 13 recording annual growth of 4.2% percent. Recovery in written-off accounts stood at Rs. 324 cr in FY12 compared to Rs 354 cr FY13. Core fee based income increased from Rs 1,392 cr to Rs.1 421 cr in FY 13.

Operating expenses increased by 13.2% to Rs.4512 cr from Rs. 3988 cr in over the previous year of which employee expenses increased by 11.1% to Rs.2755 cr and other operating expenses increased by 16.5% to Rs.1757 cr during the year. During this year bank's cost income ratio was increased to 44.7% from 43.1% in FY12 largely due to opening of large numbers of new branches, provisioning for pending wage revision and pension liabilities. During the year bank has opened 309 new branches across India and one foreign branch in Dubai talking total branch network to 3511.

During the year bank has made total loan loss provision of Rs.1556 cr as against Rs.1511 cr in last year. Total loan loss provisions make by bank during year was Rs.2518 cr as against Rs.2541 cr in FY12. Provision of bank as a percentage of total advances increased margin to 1.4% from 1.3% when compared to last year.

Union bank registered growth of 20.7% in net profit to Rs.2158 cr over the previous year largely driven by healthy NII growth and lower provision. Return on asset increased and return on equity remain flat at 0.7% and 12.5%.

Financials Rs, Cr

	2011	2012	2013	2014E	2015E
NII	6216	6793	7543	8212	9261
Total Income	8255	9241	10095	10764	11813
PPP	4305	5254	5583	5920	6497
Net Profit	2082	1787	2158	2287	2468
EPS	39.7	32.5	36.2	38.3	41.4

(Source: Company/Eastwind)

Please refer to the Disclaimers at the end of this Report.

Bank's total business (loan +deposits) grew by 18% to Rs.471864 cr over the previous year. Balance sheet size increased by 19% to Rs.311861 cr in FY13 from Rs.262211 cr in FY12. Total deposits of the bank grew by 18.3% to Rs.263762 cr in FY13. Saving account deposits grew by 14% to Rs.57497 cr and current account deposits increased by 25.2% to Rs. 24138 cr. Share of saving account in overall deposits decreased marginally to 21.8% from 22.6% in previous year and share of current account deposits increased to 9.2% from 8.6% in FY12. Term deposits increased by 18.9% to Rs.182127 cr as compare to previous year and share of term deposits to overall deposits increased to 69% from 68.7% in FY12. But CASA ratio remains flat at 31% in FY13.

During year bank's loan grew by 17% to Rs.208102 cr in FY13. Priority sector registered loan growth of 35.6% to Rs.56809 cr from Rs.41889 cr in FY12 and portion of advance to priority sector accounts for 34.7% in FY13 higher than 25.6% in FY12. Credit deposits ratio increased to 78.9% from 79.8% in FY12. We have model credit deposits ratio at 78% in FY14E and 77.5% in FY15E.

On asset quality front, bank's GNPA deteriorate at 15.9% in FY13 to Rs6314 cr largely due to slow down in domestic economy and subdue external demand. But in percentage of GNPA to total advance remains flat at 3%. Net NPA further increased by 10.9% to Rs.3353 cr from Rs.3025 cr in previous year. In percentage term, net NPA declined to 1.6% from 1.7% over the previous year. The cash recovery and up-gradation stood at Rs 1983 cr in FY13 compared to Rs 995 cr in the previous year, showing an increase of 99 percent. The percentage of recovery/up-gradation to opening NPA level stood at 36.39 percent in FY13 as compared to 27.5% in the last fiscal. Provision coverage ratio (without technical write off) was increased to 44.6% from 43.1% in FY12.

Union Bank witnessed deteriorates in asset quality but strong recovery and upgradation showed improved recovery effort. According to management, the estimated restructure pipeline loan as of June 2013 would be Rs.2200 cr which could be exerted pressure on asset quality. At the current price of Rs.207 bank is trading at lower side of valuation band. Moreover bank's management continue to guided that GNPA is at highest and will continue to declined years to come. We have model 3.1% and 3.2% of GNPA in FY14 and FY15. Any sign of improvement in asset quality will boost stock performance larger than peers in our opinion. We recommend buy with price target of Rs.252 which is 0.8 times and 0.7 times of expected book for FY14E and FY15E.

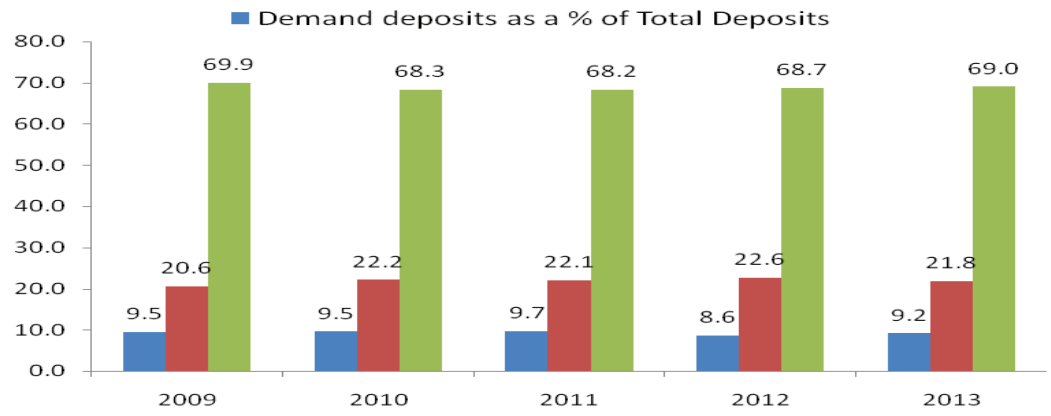
Asset Quality Trend

	FY10	FY11	FY12	FY13
Amount of GNPA(Rs Cr)	4594	3623	5450	6314
Amount of NPA (Rs Cr)	965	1803	3025	3353
Amount of Provisions (Rs Cr)	1643	1777	2350	2818
Slippage as a % of Advance	3.1	1.9	2.1	1.9
GNPA as % of Advance	3.9	2.4	3.1	3
NNPA as % of Advance	0.8	1.2	1.7	1.6
Provisions as % to advances	1.4	1.2	1.3	1.4

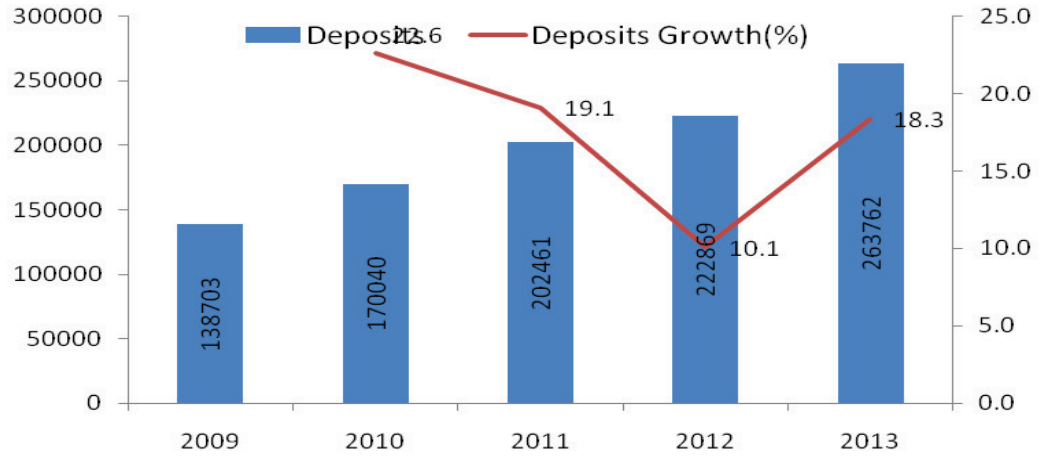
Source: Eastwind/Company

Please refer to the Disclaimers at the end of this Report.

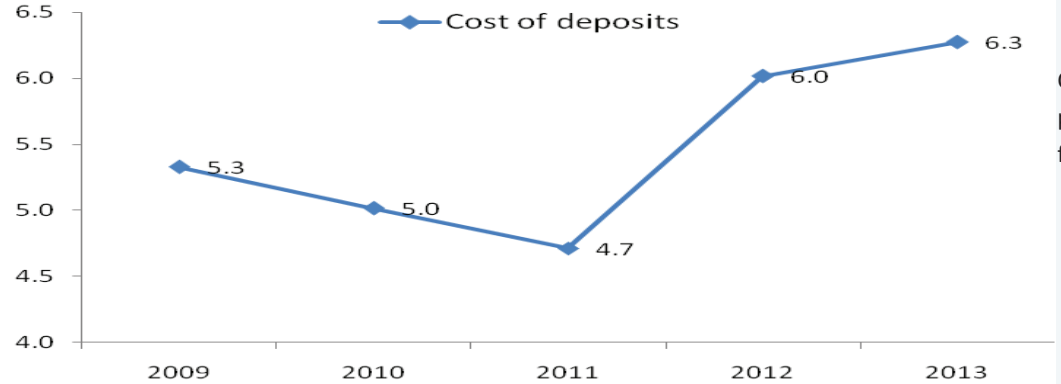
FUNDAMENATL THROUGH GRAPH
BALANCE SHEET



Share of saving account in overall deposits decreased marginally to 21.8% from 22.6% in previous year and share of current account deposits increased to 9.2% from 8.6% in FY12. Share of term deposits to overall deposits increased to 69% from 68.7% in FY12



Total deposits of the bank grew by 18.3% to Rs.263762 cr in FY13. Saving account deposits grew by 14% to Rs.57497 cr and current account deposits increased by 25.2% to Rs. 24138 cr.



Source:Eastwind/Compnay

Cost of deposits increased by 23.5% over the previous year taking cost of deposits to 6.3% from 6% in last year.

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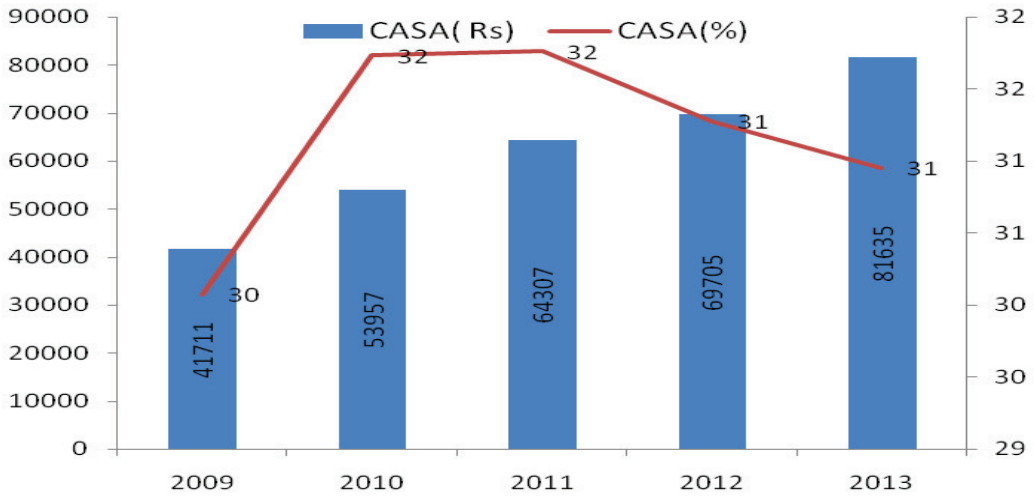
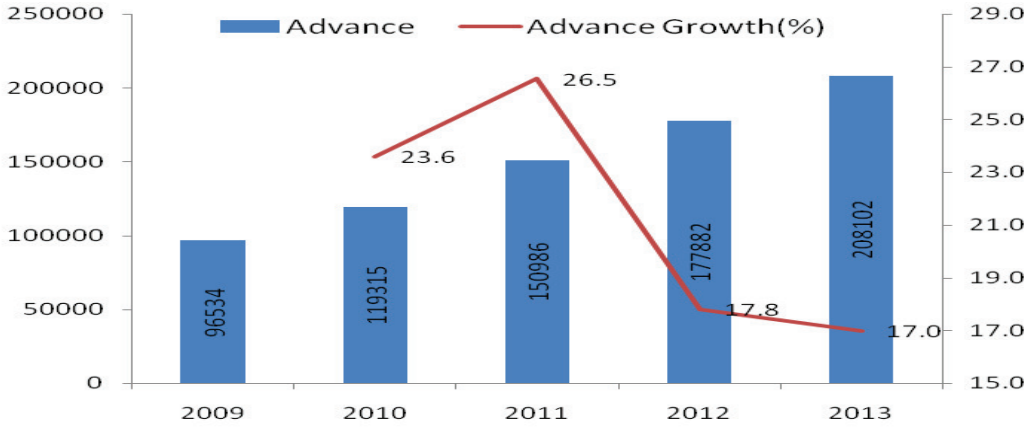
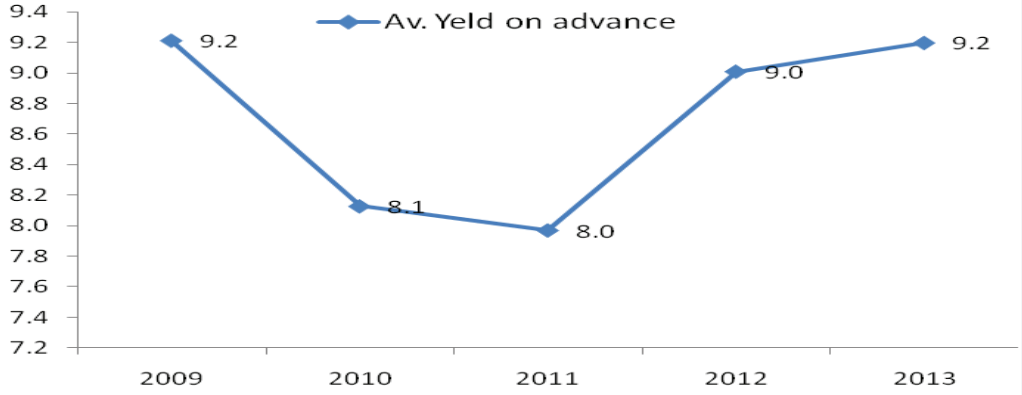
UNION BANK







Source: Eastwind/Company

Bank's loan grew by 17% to Rs.208102 cr in FY13. Priority sector registered loan growth of 35.6% to Rs.56809 cr from Rs.41889 cr in FY12

Interest income grew by 19.4% and income from investment grew by 24.1% over the previous year. Yield on loan of the bank stood at 9.2% versus 9% in previous year and yield on investment stood at 7% versus 7.3% in FY12

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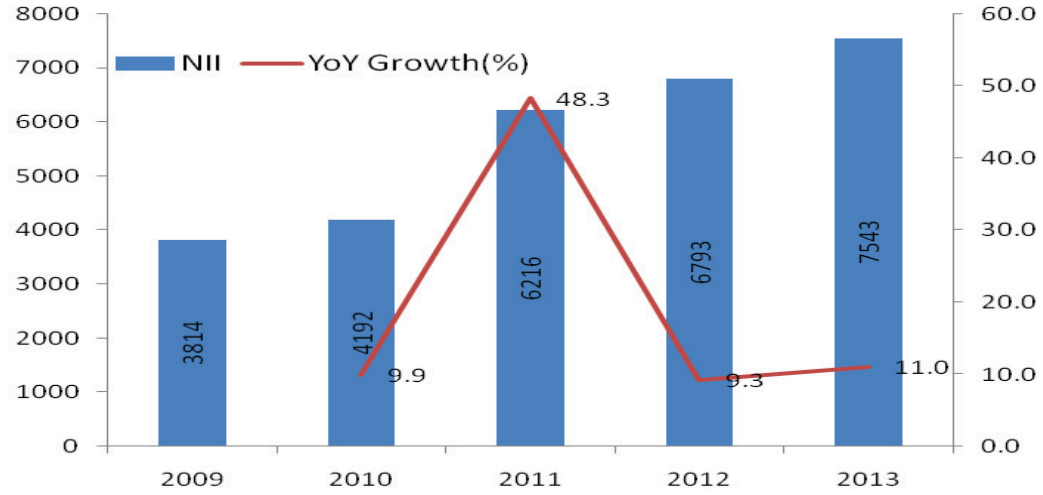
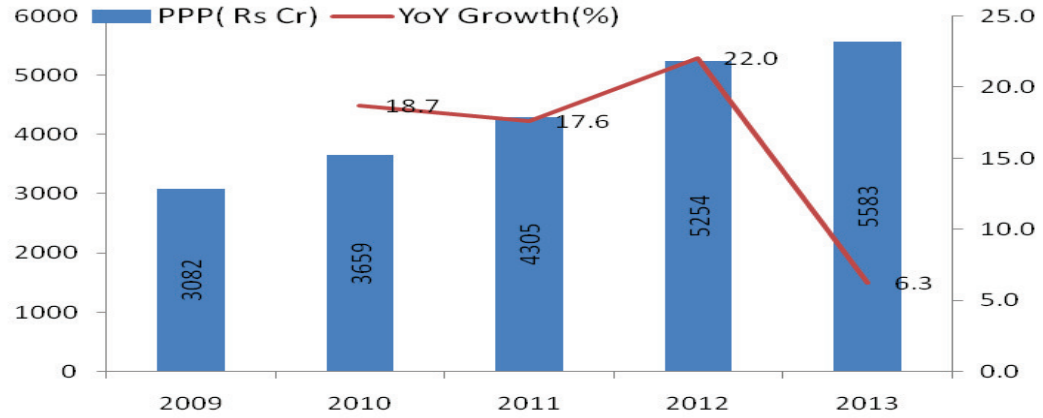
UNION BANK

PROFIT & LOSS





Union bank registered growth of 20.7% in net profit to Rs.2158 cr over the previous year largely driven by healthy NII growth and lower provision.

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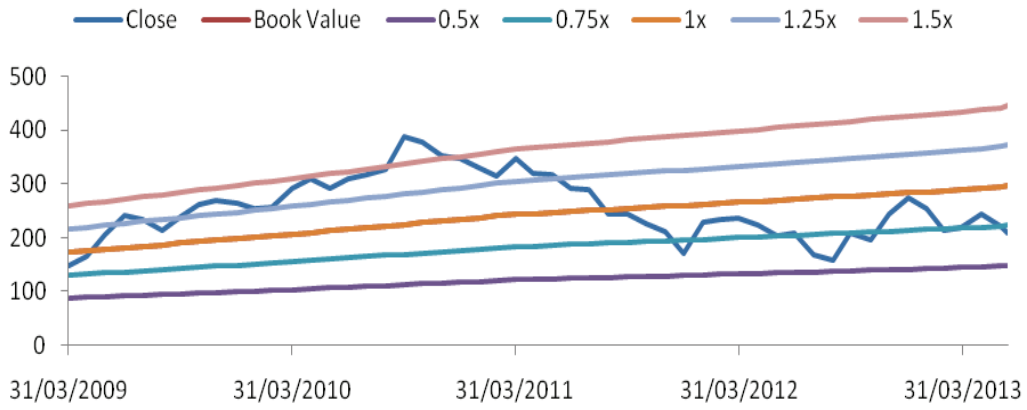
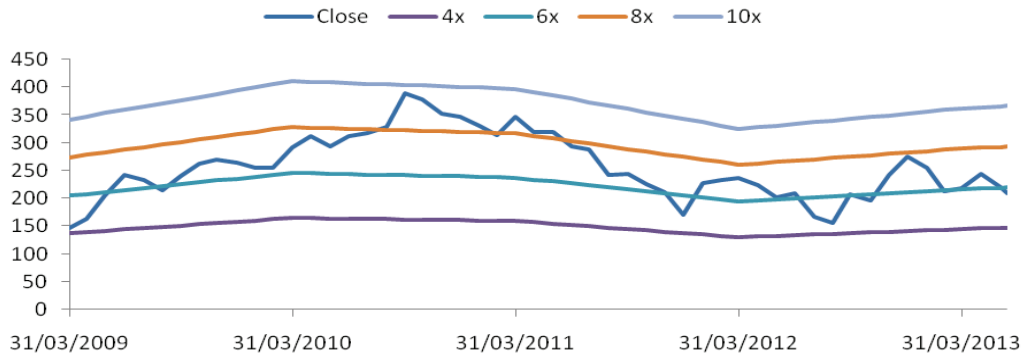
UNION BANK

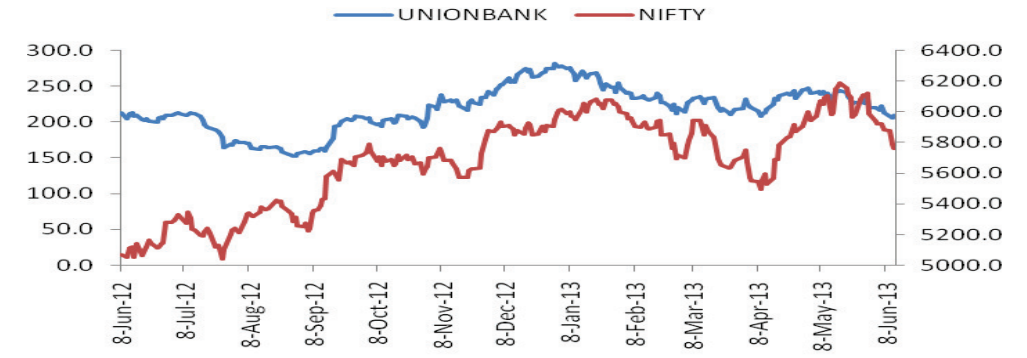
VALUATION BAND
1 YR FORWARD P/BV



1 YR FORWARD P/E



Union Bank Vs Nifty



Source:Eastwind/Company

Due to stree asset quality and higher restructure asset, union bank is trading at lower side of valution band

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UNION BANK

FINANCIALS

P/L	2010	2011	2012	2013	2014E	2015E
Interest/discount on advances / bills	9696	12031	16027	19140	21539	24769
Income on investments	3482	4003	4570	5671	6797	7884
Interest on balances with Reserve Bank of India	55	161	331	199	199	199
Others	69	258	101	115	115	115
Total Interest Income	13303	16453	21028	25125	28648	32967
Others Income	1975	2039	2448	2552	2552	2552
Total Income	15277	18491	23477	27677	31200	35519
Interest on deposits	8528	9538	13406	16551	19245	22324
Interest on RBI/Inter bank borrowings	101	113	141	274	1191	1381
Others	481	585	689	756	0	0
Interest Expended	9110	10236	14235	17582	20436	23706
NII	4192	6216	6793	7543	8212	9261
NII Growth(%)		*48.3*	*9.3*	*11.0*	*8.9*	*12.8*
Other Income	1975	2039	2448	2552	2552	2552
Total Income	6167	8255	9241	10095	10764	11813
Employee	1354	2600	2479	2755	2955	3243
Other Expenses	1153	1350	1508	1757	1889	2073
Operating Expenses	2508	3950	3988	4512	4844	5316
PPP(Rs Cr)	3659	4305	5254	5583	5920	6497
Provisions	1584	2223	3467	3425	3634	4029
Net Profit	2075	2082	1787	2158	2287	2468
		0.3	*-14.2*	*20.7*	*6.0*	*7.9*

Key Balance sheet data						
Deposits	170040	202461	222869	263762	305963	354918
Deposits Growth(%)		19.1	10.1	18.3	16.0	16.0
Borrowings	9215	13316	17909	23797	27694	32124
Borrowings Growth(%)		44.5	34.5	32.9	16.4	16.0
Loan	119315	150986	177882	208102	239318	275215
Loan Growth(%)		26.5	17.8	17.0	15.0	15.0
Investments	54404	58399	62364	80830	97094	112629
Investments Growth(%)		7.3	6.8	29.6	20.1	16.0

Eastwind Calculation						
Yield on Advances	8.1	8.0	9.0	9.2	9.0	9.0
Yield on Investments	6.4	6.9	7.3	7.0	7.0	7.0
Yield on Funds	7.1	7.2	8.3	8.3	8.5	8.5
Cost of deposits	5.0	4.7	6.0	6.3	6.3	6.3
Cost of Borrowings	6.3	5.2	4.6	4.3	4.3	4.3
Cost of fund	5.1	4.7	5.9	6.1	6.1	6.1

Valuation						
Book Value	206	243	266	290	320	353
P/BV	1.4	1.4	0.9	0.7	0.6	0.6
P/E	7.1	8.7	7.2	5.8	5.4	5.0

Eastwind Assuptions

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