




Union Bank of India

Industry	Financial
Bloomberg	UNBK IN
BSE CODE	532477

Higher Provisioning Divergence has Affected Profitability.

RATING	NEUTRAL
CMP	52
Price Target	57
Potential Upside	10%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	100/48
Mkt Capital (Rs Cr)	9,221
Free float (%)	22%
Avg. Vol 1M (000)	10,310
No. of Shares (Cr)	176
Promoters Pledged %	

Fig. in Rs Cr

Financial	FY19	FY20E	FY21E
NII	10215	10647	10548
PPP	7521	8071	7977
PAT	-2947	-797	1349
NIM %	2.2	2.3	2.2
EPS (Rs)	-17	-5	8
EPS	63	73	269
ROE (%)	-11.4	-3.1	5.1
ROA (%)	-0.6	-0.2	0.3
BV	150	146	153
P/B (X)	0.6	0.4	0.3
P/E (x)	-5.7	-11.5	6.8

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2QFY20 Results Update

- Union Bank has accounted the entire RBI reported provisioning divergence of Rs 1588 Cr from FY19 during the quarter. Advances growth remained sluggish at 2% YoY. NII growth stood at 17% majorly on the back of margins improvement with better pricing. The Other income has grown at 27% YoY on the back of strong treasury gain. The C/I ratio stands improved from 22.9% to 18.7% YoY. The higher provisioning divergence led to a loss of Rs 1194 Cr during the quarter.
- NIM stands improved at 2.35% from 2.12% QoQ while domestic NIM has increased to 2.44% from 2.17% QoQ. The global yields to total assets have improved to 6.89% from 6.87% QoQ while the cost of funds has declined from 4.93% to 4.76%. The domestic cost of the deposit has slightly increased from 5.63% to 5.68% QoQ.
- An advance growth has remained muted YoY, the growth was driven by the retail segment while the corporate segment decreased by 4% YoY. The investment book stood at Rs 170781 Cr with a sequential growth of 20% YoY.
- Deposit growth stood at 11% YoY, while CASA % stood at 33.8% as of 2QFY20. The growth was mainly driven by CA growth at 9% YoY while SA growth stood at 6% YoY.
- The GNPA has increased from 15.18% to 15.24% QoQ while NNPA stands reduced to 6.98% from 7.23% QoQ. The PCR has improved sequentially from 66% to 68%. The credit cost has increased from 1.8% to 4.1% QoQ along with its provision concerning the standard asset has also increased majorly on the back of DHFL slipping into NPA.
- The slippages has increased to 1.55% from 1.12% QoQ while the reduction ratio stood at 1% range. The slippages in the MSME sector majorly contributed to the NPA in 2QFY20.
- The SMA 2 stood at Rs 13186 Cr (Corporate account stood at Rs 1800 excluding HFC account). The ICA is signed in 23 accounts with Rs 10770 Cr out of these only 3 are a standard amounting to Rs 3619 Cr. Management does not see much stress in the NBFC segment.
- The share of RAM (Retail, Agriculture & MSME) stood at 57% as of 2QFY20. The exposure towards NBFCs & HFC has increased by 5% each sequentially.
- The CAR of the Bank under Basel III is 15.14 per cent as on 2QFY20 as against 11.43 per cent as at 1QFY20. UNION bank has received Rs 11768 Cr of equity from the government.

View and Valuation

Union Bank has reported a provisioning divergence of Rs 1588 Cr from the year of FY19, which management has taken the entire hit during the quarter leading to a loss during the quarter. The HFC account has also defaulted in the month of October (with 15% prudent standard provisioning has been provided during the quarter). The HFC is expected to come on the books as NPA in 3QFY20 thus requiring higher provision going ahead. The SBI and UNION BANK have red-flagged the HFC account and has appealed for fraud recognition. With the delaying NCLT proceedings, we expect the credit cost will remain elevated during the 2HFY20. The merger is expected to happen by 1st April 2020. We remain cautious on the stock as it has one of the highest exposures to the HFC account and if the account is declared fraud, fraud provisioning needed to be done on the entire exposure thus affecting profitability. We downgrade the stock to NEUTRAL at P/B of 0.4x for FY21e at Rs 57.

Key Risks to our rating and target

- Uncertainty over the resolution of NCLT cases will keep the earning volatile.
- Higher quantum of provision will affect PAT.

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2QFY20 Results Below Expectations

Higher Provisioning

Fig. In Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	8,539	8,478	8,350	8,898	9,413	10.2%	5.8%	32,748	34,067	4.0%
Interest Exp.	6,046	5,983	5,748	6,379	6,508	7.6%	2.0%	23,443	23,852	1.7%
NII	2,493	2,494	2,602	2,518	2,906	16.6%	15.4%	9,305	10,215	9.8%
Other Income	899	1,095	1,272	990	1,143	27.1%	15.5%	4,990	4,474	-10.3%
Total Income	3,393	3,589	3,873	3,508	4,049	19.4%	15.4%	14,295	14,689	2.8%
Opex	1,621	1,839	2,143	1,621	1,808	11.6%	11.5%	6,655	7,168	7.7%
PPP	1,772	1,750	1,730	1,886	2,241	26.5%	18.8%	7,640	7,521	-1.5%
Provisions	1,656	1,617	5,766	1,519	3,859	133.1%	154.0%	14,281	11,448	-19.8%
PBT	116	133	(4,036)	367	(1,618)	N/A	N/A	(6,641)	(3,927)	N/A
Tax	(23)	(20)	(667)	143	(425)	N/A	N/A	(1,394)	(979)	N/A
Net Profit	139	153	(3,369)	224	(1,194)	N/A	N/A	(5,247)	(2,947)	N/A

Concall Highlights

- Management states economic growth has moderated as consumer demand weakened.
- Provision has spiked as the DHFL (Rs 2300 Cr fund based & Rs 161 Cr non-fund based) account has slipped to NPA in October. 15% provision is already made in 2QFY20. Portfolio pool exposure stands at Rs 800 Cr, it is servicing & standard.
- Recovery and up-gradation during the quarter stood at Rs 1303 Cr v/s Rs 770 Cr QoQ.
- Management has revised the guidance with credit growth to be around 7-9% and deposit growth is expected to be around 9-11%. NIM is expected to be around 2.25%. Delinquency ratio is expected to be around 4.5% with GNPA at 14%, NNPA below 6%, Credit cost at around 3% and PCR at 70%. C/I ratio is expected to be around 46%.
- The resolution from the NCLT has not yet materialized. HFC distressed account has slipped in October. SBI and UNION BANK have red-flagged the account and are in the process of declaring the fraud.
- GMR Chhattisgarh up-gradation amount stood Rs 235 Cr. GMR Chhattisgarh exposure is resolved in the 2QFY20 but the provision cannot be reversed up to 1 year. SR Steel is provided up to 50% while Ruchi soya & Alok is fully provided.
- UNION Bank has no exposure to Voda & Idea Management is looking at 2 resolutions in 3QFY20 i.e. Prayagraj & Korba West.
- The slippages are in the range of Rs 4219 Cr with the corporate slippages are around Rs 2080 Cr. Out of these 8 accounts are above Rs 100 Cr with constituting Rs 1700 Cr.
- Bhusan Power & some other exposure have been declared as a fraud. The RBI dispensation is been used to spread fraud provision of Rs 1200 in the next 4 quarters. The provision is under 50%.
- Management expects Rs 9000 Cr of recovery in FY20.
- The SMA 2 stood at Rs 13186 Cr (Corporate account stood at Rs 1800 excluding HFC account). The ICA is signed in 23 accounts with Rs 10770 Cr out of these only 3 are a standard amounting to Rs 3619 Cr. Management does not see much stress in the NBFC segment.
- Religare has slipped into NPA with the management change process is going on. Mudra book (70% is guaranteed) stood at around Rs 7000 Cr with NPA at 12%.
- Management states agriculture NPA has peaked out.
- The merger integration is expected to be around 1st April 2020.
- UNION bank has received Rs 11768 Cr of equity from the government.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	48.6	45.5	47.8	51.2	55.3	46.2	44.7	-3.11	-1.56
Empl. Cost/ Tot. Exp. %	45.6	44.1	47.9	43.7	45.8	44.5	41.9	-5.92	-2.55
Other Exp/Tot. Exp.%	54.4	55.9	52.1	56.3	54.2	55.5	58.1	5.92	2.55
Provision/PPP %	300.0	106.7	93.4	92.4	333.3	80.5	172.2	78.78	91.68
Tax Rate %	31.6	192.3	(19.5)	(15.0)	16.5	38.9	26.2	45.75	-12.62
Int Exp./Int Inc. (%)	73.0	69.8	70.8	70.6	68.8	71.7	69.1	-1.67	-2.57
Other Inc./Net Inc. %	40.4	31.5	26.5	30.5	32.8	28.2	28.2	1.72	0.02
PAT/ Net Income %	(70.2)	3.4	4.1	4.3	(87.0)	6.4	(29.5)	-33.58	-35.88
PAT Growth %	-2486.71	11.1206	109.1	112	(30.4)	(73.3)	(958.5)	N/A	N/A
NII Growth % (YoY)	(8.1)	17.1	7.4	(2.1)	18.6	(4.1)	16.6	9.13	20.67
Op. Profit Growth YoY %	(11.5)	1.6	(8.6)	5.8	(8.4)	(9.7)	26.5	35.07	36.14

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	7.3	7.9	7.7	7.8	7.5	7.8	7.9	0.18	0.08
Yield on Total Assets	6.4	6.9	6.9	6.9	6.7	6.9	6.9	0.01	0.02
Cost of Deposits	5.5	5.5	5.5	5.6	5.7	5.6	5.7	0.14	0.05
Cost of Funds	4.7	4.8	4.9	4.9	4.6	4.9	4.8	-0.11	-0.17
NIM	1.9	2.3	2.2	2.2	2.3	2.1	2.4	0.17	0.23

Exhibit: Yield and Cost
Spreads has Improved

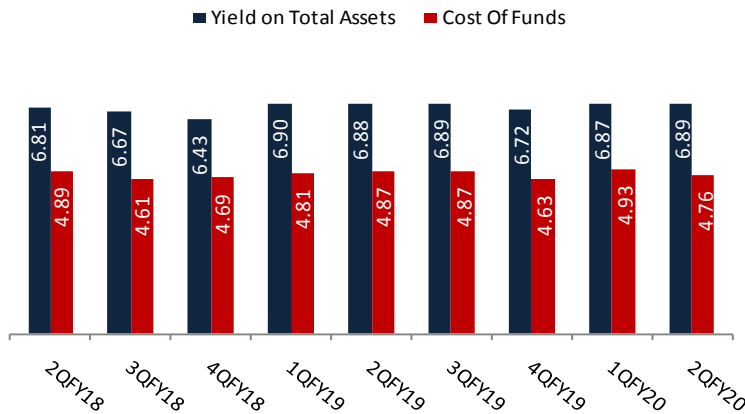
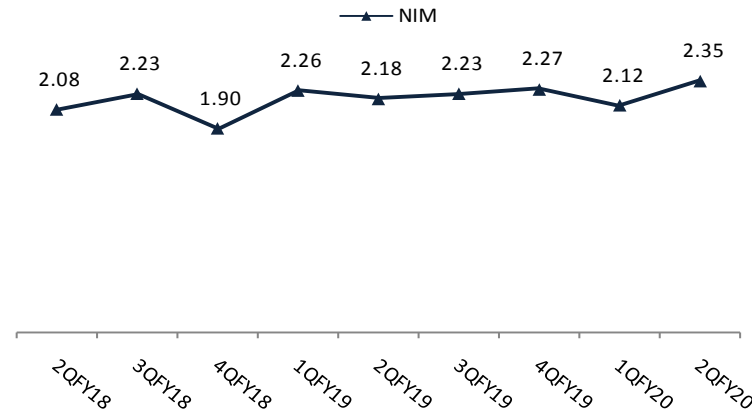


Exhibit: Net Interest Margin
NIM has Improved Sequentially



Other Income Break Up-

Fig. in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Fee income	549	597	1127	707	641	660	867	500	605
Growth YoY %	10.2	26.5	75.8	16.7	16.8	10.6	(23.1)	(29.3)	(5.6)
Treasury income	613	155	277	288	153	191	266	345	379
>>Profit on Sale	477	6	132	194	82	110	188	255	292
>>Exchange	136	150	145	95	71	81	78	90	87
Total Other Income	1217	873	1485	1207	899	1095	1271	990	1142
Growth YoY %	6.8	(34.8)	2.7	(14.7)	(26.1)	25.4	(14.4)	(18.0)	27.0

Exhibit: Fee Income/Advances %

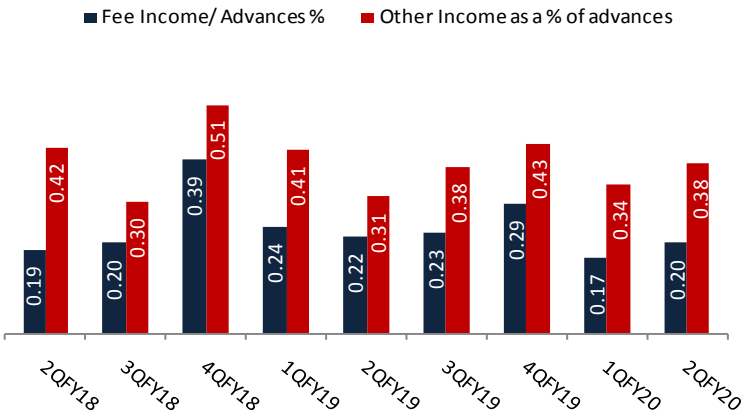
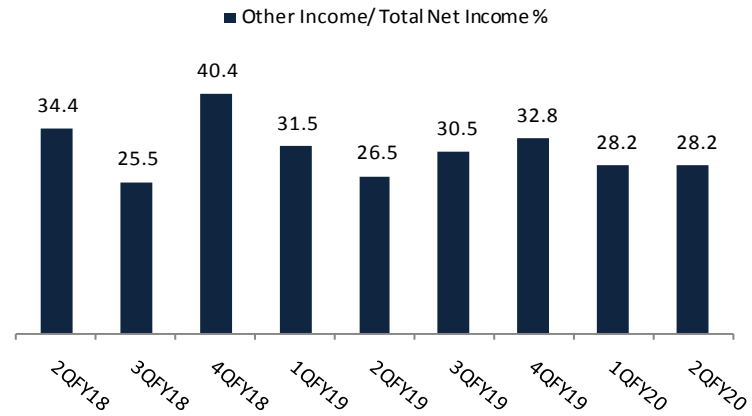


Exhibit: Other Income/ Total Income %



Asset Quality

Fig. in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	49,369	50,973	50,157	49,713	48,729	48,812	49,850	-1%	2%
GNPA %	15.7	16.0	15.7	15.7	15.0	15.2	15.2	-0.5	0.06
NNPA (Rs in Cr)	24,326	25,508	24,657	24,142	20,332	21,231	20,791	-16%	-2%
NNPA %	8.4	8.7	8.4	8.3	6.9	7.2	7.0	-1.44	-0.25
Slippages (Rs in Cr)	10,043	4,652	2,667	2,983	3,275	3,090	4,219	58%	37%
PCR %	50.7	50.0	50.8	51.4	58.3	56.5	58.3	7.45	1.79

Exhibit: Asset Quality

Asset quality Deteriorated on a QoQ basis

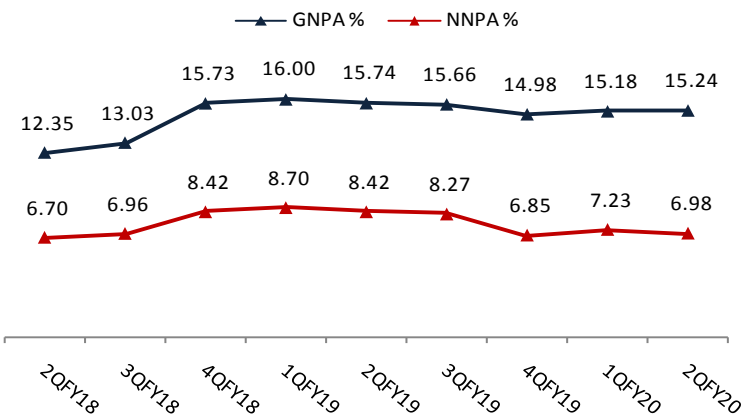


Exhibit: Provisions

PCR has remained Stable

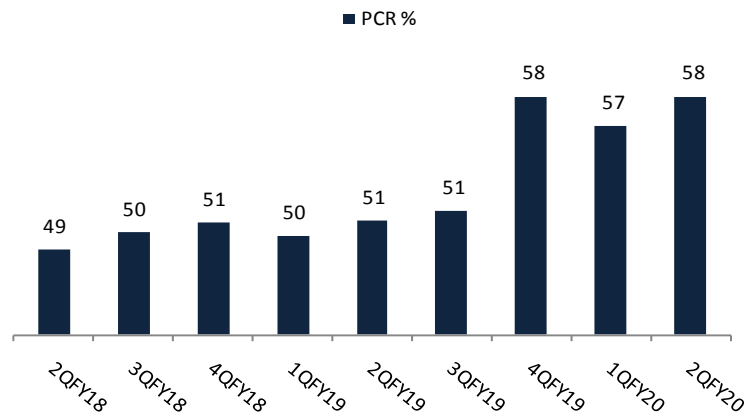


Exhibit: Advances Performance

Advances Growth has Improved Marginally

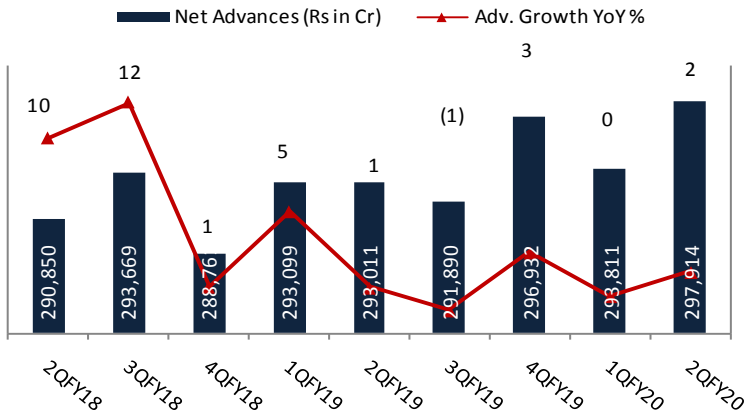


Exhibit: Advances Breakup%

Stable Portfolio Mix QoQ

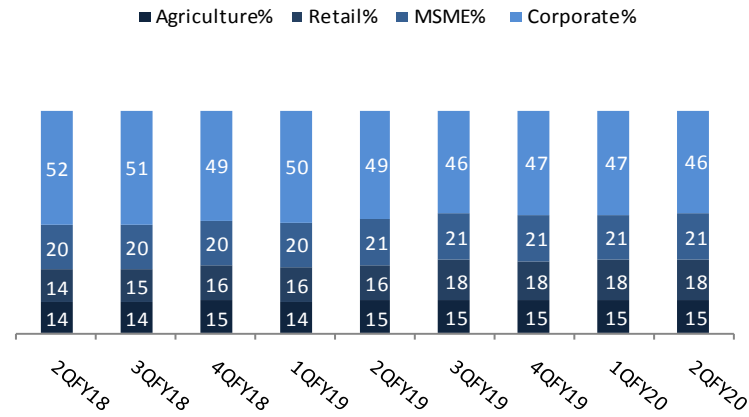


Exhibit: Deposits Performance

Deposits growth has increased

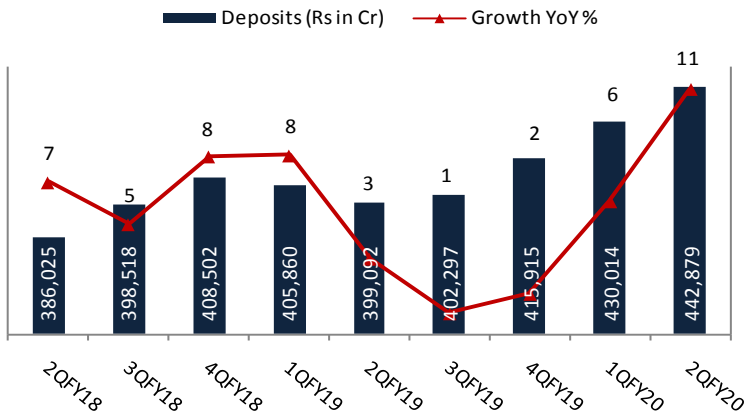


Exhibit: CASA Performance

CASA growth remains muted

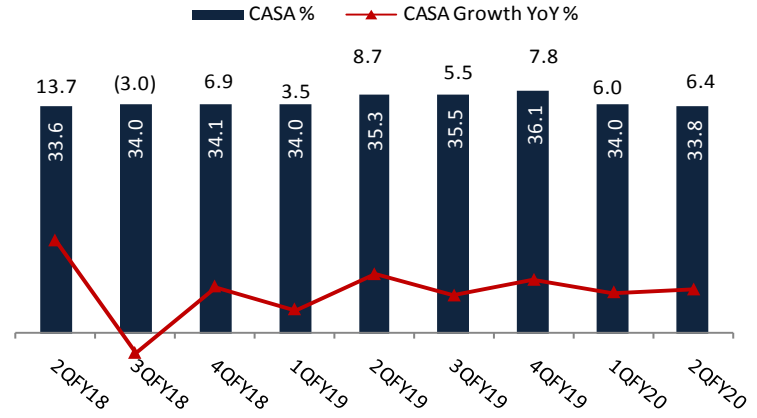


Exhibit: Credit Deposit Ratio

CD ratio has moved down.

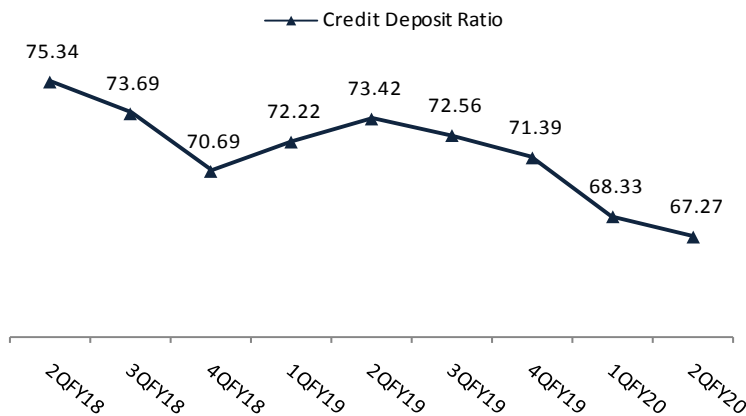
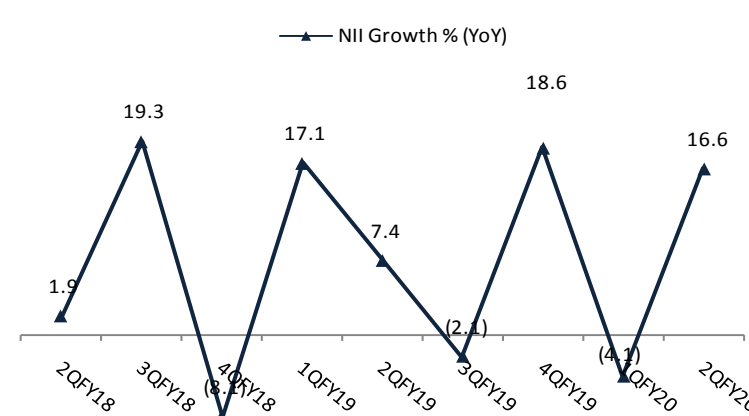


Exhibit: NII Growth

NII growth has Improved



Financial Details

Balance Sheet

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	741	636	687	687	1169	1763	1763	1763
>> Equity Capital	741	636	687	687	1169	1763	1763	1763
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	17734	19125	22204	23289	23928	24724	23927	25276
Networth	18475	19761	22891	23435	25097	26487	25690	27039
Deposits	297676	316870	342720	378391	408502	415915	426579	437480
Change (%)	12.9	6.4	8.2	10.4	8.0	1.8	2.6	2.6
>> CASA Deposits	87801	92650	110876	130308	139241	150141	147170	157493
Change (%)	7.6	5.5	19.7	17.5	6.9	7.8	-2.0	7.0
Borrowings	29317	35360	30958	41226	45681	42864	43938	47773
Other Liabilities & Prov.	8313	9625	8127	9111	8101	8773	8887	10329
Total Liabilities	353781	381616	404696	452704	487380	494039	505094	522621
Cash & Bank	23073	22378	29277	32822	49441	43046	36662	38183
Investments	93723	94093	89208	112149	123754	126047	136505	139994
Change (%)	16.0	0.4	-5.2	25.7	10.3	1.9	8.3	2.6
Advances	229104	255655	267354	286467	288761	296932	302871	314986
Change (%)	10.1	11.6	4.6	7.1	0.8	2.8	2.0	4.0
Fixed Assets	2608	2682	3940	3894	3833	3762	3725	3687
Other Assets	5272	6808	14917	17372	21591	24252	25331	25772
Total Assets	353781	381616	404696	452704	487380	494039	505094	522621

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	29349	32084	32199	32660	32748	34067	36703	36956
Interest expended	21470	23640	23886	23757	23443	23852	26057	26408
Net Interest Income	7879	8444	8313	8903	9305	10215	10647	10548
Change (%)	4.5	7.2	-1.5	7.1	4.5	9.8	4.2	-0.9
Other Income	2822	3523	3632	4965	4990	4474	4315	4362
Change (%)	10.6	24.9	3.1	36.7	0.5	-10.3	-3.5	1.1
>> Core Fee Income	1634	1872	1879	2068	2879	2875	2300	2474
>> Treasury Income	922	1333	1567	2695	1834	898	724	0
>> Others	266	318	186	202	277	701	1291	1888
Total Net Income	10701	11967	11945	13868	14295	14689	14962	14910
Operating Expenses	5483	6143	6223	6438	6655	7168	6891	6933
Change (%)	21.5	12.0	1.3	3.5	3.4	7.7	-3.9	0.6
>> Employee Expenses	3308	3786	3620	3434	3155	3151	3035	3131
Pre-provisioning Profit	5218	5823	5722	7430	7640	7521	8071	7977
Change (%)	-6.5	11.6	-1.7	29.9	2.8	-1.5	7.3	-1.2
Provisions	3149	3040	3877	7088	14281	11448	9098	6155
Change (%)	25.0	-3.5	27.5	82.8	101.5	-19.8	-20.5	-32.4
PBT	2069	2783	1765	343	-6641	-3927	-1027	1822
Tax	373	1002	414	-213	-1394	-979	-230	474
Profit After Tax	1696	1782	1352	555	-5247	-2947	-797	1349
Change (%)	-21.4	5.0	-24.1	58.9	-1045.1	43.8	-73.0	-269.2

Financial Details

Key Ratios

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	10	12	5	7	1	3	2	4
Deposit Growth (%)	13	6	8	10	8	2	3	3
C/D Ratio (%)	77.0	80.7	78.0	75.7	70.7	71.4	71.0	72.0
CASA (%)	29.5	29.2	32.4	34.4	34.1	36.1	34.5	36.0
Investment/Deposit (%)	31.5	29.7	26.0	29.6	30.3	30.3	32.0	32.0
CRAR (%)	10.8	10.2	10.6	11.8	11.5	11.8	12.3	12.3
>> Tier 1 (%)	7.5	7.5	8.1	9.0	9.1	9.5	9.7	9.8
>> Tier 2 (%)	3.3	2.7	2.4	2.8	2.4	2.0	2.6	2.5

Assets Quality Metrics

Gross NPA (Rs)	9,564	13,031	24,171	33,712	49,369	48,729	49,012	48,854
Gross NPA (%)	4.1	5.0	8.7	11.2	15.7	15.0	14.8	14.2
Net NPA (Rs)	5,340	6,919	14,026	18,833	24,326	20,332	21,075	21,007
Net NPA (%)	2.3	2.7	5.3	6.6	8.4	6.9	7.0	6.7
Slippages (%)	3	3	5	5	8	5	5	5
Provision Coverage (%)	60	59	51	51	51	58	67	65
Provision/Average Advances (%)	1.4	1.3	1.5	2.6	5.0	3.9	3.0	2.0

Margin Metrics

Yield On Advances (%)	9.9	9.9	9.0	8.3	7.9	8.1	8.2	8.1
Yield On Investment (%)	8.3	7.6	8.2	8.6	7.4	7.2	8.0	7.5
Yield on Earning Assets (%)	9.4	9.4	8.8	8.1	7.5	7.5	7.9	7.7
Cost Of Deposits (%)	7.1	7.0	6.7	6.1	5.5	5.4	5.7	5.6
Cost Of Funds (%)	6.9	6.8	6.5	5.9	5.3	5.2	5.5	5.4
Spread (%)	2.5	2.6	2.3	2.2	2.2	2.3	2.3	2.2
NIM (%)	2.5	2.5	2.3	2.2	2.1	2.2	2.3	2.2

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	73.2	73.7	74.2	72.7	71.6	70.0	71.0	71.5
Fee Income/NII (%)	20.7	22.2	22.6	23.2	30.9	28.1	21.6	23.5
Cost to Income (%)	51.2	51.3	52.1	46.4	46.6	48.8	46.1	46.5
Cost on Average Assets (%)	1.6	1.7	1.6	1.5	1.4	1.5	1.4	1.3
Tax Rate (%)	18.0	36.0	23.4	(62.1)	21.0	24.9	22.4	26.0

Valuation Ratio Metrics

EPS (Rs)	26.9	28.0	19.7	8.1	(44.9)	(16.7)	(4.5)	7.6
Change (%)	(25.7)	4.3	(29.9)	(58.9)	(655.6)	63	73.0	269.2
ROAE (%)	9.5	9.3	6.3	2.4	(21.6)	(11.4)	(3.1)	5.1
ROAA (%)	0.5	0.5	0.3	0.1	(1.1)	(0.6)	(0.2)	0.3
Dividend Payout (%)	14.9	21.4	9.9	-	-	-	-	-
Dividend yield (%)	2.9	3.8	1.5	-	-	-	-	-
Book Value (Rs)	292.9	311.0	333.0	341.1	214.8	150.2	145.7	153.4
Change (%)	1	6	7	2	(37)	(30)	(3)	5
P/B (X)	0.5	0.5	0.4	0.5	0.4	0.6	0.4	0.3
P/E (X)	5.1	5.6	6.7	19.3	(2.1)	(5.7)	(11.5)	6.8

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	8.8	8.7	8.2	7.6	7.0	6.9	7.3	7.2
<i>Interest expended</i>	6.5	6.4	6.1	5.5	5.0	4.9	5.2	5.1
<i>Net Interest Income</i>	2.4	2.3	2.1	2.1	2.0	2.1	2.1	2.1
<i>Non-Fund Based Income</i>	0.8	1.0	0.9	1.2	1.1	0.9	0.9	0.8
>> <i>Core Fee Income</i>	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5
>> <i>Trading and Other Income</i>	0.4	0.4	0.4	0.7	0.4	0.3	0.4	0.4
<i>Core Operating Income</i>	2.9	2.8	2.6	2.6	2.6	2.7	2.6	2.5
<i>Total Income</i>	3.2	3.3	3.0	3.2	3.0	3.0	3.0	2.9
<i>Total Operating Expenses</i>	1.6	1.7	1.6	1.5	1.4	1.5	1.4	1.3
>> <i>Employee Expenses</i>	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.6
>> <i>Other Expenses</i>	0.7	0.6	0.7	0.7	0.7	0.8	0.8	0.7
<i>Operating Profit</i>	1.6	1.6	1.5	1.7	1.6	1.5	1.6	1.6
<i>Provisions</i>	0.9	0.8	1.0	1.7	3.0	2.3	1.8	1.2
<i>Others</i>	-	-	(0.0)	-	-	-	-	-
<i>PBT</i>	0.6	0.8	0.4	0.1	(1.4)	(0.8)	(0.2)	0.4
<i>Tax</i>	0.1	0.3	0.1	(0.0)	(0.3)	(0.2)	(0.0)	0.1
<i>PAT/RoAA</i>	0.5	0.5	0.3	0.1	(1.1)	(0.6)	(0.2)	0.3
<i>Equity Multiplier (x)</i>	18.6	19.2	18.4	18.5	19.4	19.0	19.1	19.5
<i>ROAE</i>	9.5	9.3	6.3	2.4	(21.6)	(11.4)	(3.1)	5.1

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