

Industry
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Financial
UNBK IN
532477

Muted Advance Growth and Elevated Provisioning Affects Profitability.

RATING	NEUTRAL
CMP	51
Price Target	57
Potential Upside	12%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	100/47
Mkt Capital (Rs Cr)	17,114
Free float (%)	11%
Avg. Vol 1M (,000)	50
No. of Shares (Crs)	342
Promoters Pledged %	89%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	34067	37701	39289
PPP	7521	8781	8574
PAT	-2947	-144	1256
NIM %	2.2	2.4	2.3
EPS (Rs)	-17	-1	7
EPS growth (%)	63	95	974
ROE (%)	-11.4	-0.5	4.7
ROA (%)	-0.6	0.0	0.2
BV	150	149	157
P/B (X)	0.6	0.3	0.3
P/E (x)	-5.7	-62.6	7.2

3QFY20 Result Update

- Interest income has grown at the rate of 26% YoY on the back of 5% YoY on the advances. Other income has remained stable at stable YoY majorly on the back of lower processing interest income. PAT has grown at a strong rate mainly on the back of a recovery in the ESSAR steel exposure.
- NIM stands improved by 12 bps QoQ to 2.47% on the back of decrease the cost of the deposit, the global deposit has declined to 5.62% from 5.68% while domestic yield has declined to 5.60% from 5.66% QoQ.
- The C/I ratio has improved to 43.4% from 49.6%. Management has guided the operating expense to remain in the Rs 1800 Cr range
- The Advances has grown at 5% with growth was mainly driven by the retail segment at 10%. In the retail loan, the growth was mainly driven by personal loans at 63%. The share of portfolio mix has remained stable on a YoY basis, large corporate stood at 46%, SME stood at 21%, Retail advances stood at 19% and the other segment has 15%. The share of RAM sector " Retail, Agriculture and MSME" stands at 57.1% as at 3QFY20.
- More than 63% of Agri. portfolio is for Small & Marginal farmers while 76% of MSME portfolio is MSE.
- The deposit has grown at a rate of 11% YoY. The CASA% stands improved at 34% as of 3QFY20. The cost of the deposit has decreased QoQ to 5.62% from 5.68%.
- The GNPA has improved to 14.86% from 15.24% while The NNPA has remained stable at 6.99%. The PCR has increased to 67% from 58%, the ESSAR steel resolution has an Rs 800 Cr of provision revival. The credit cost calculated is expected to be in the range of 1.89%.
- The slippages have increased to Rs 5112 Cr majorly on the back of Rs 2267 Cr of DHFL exposure default. The slippages stood at MSME, Agriculture and Retail Loan Rs 1121 Cr, Rs 714 Cr and Rs 259 Cr. Management has guided corporate slippage stress to be limited going ahead. The recovery during the quarter stood at Rs 2201 Cr.
- The CAR stood at 14.7% with tier 1 at 12.69%.
- Management has guided few of the banking services will be available to 3 banks (Andhra Bank, Corporation Bank and Union Bank of India) customers in all the bank's branches while the complete technological integration will take another 9-12 months time frame. Management says the SWAP ratio for the merger will be announced in a short time frame.

View and Valuation

The growth is expected to remain muted on the back of management cautious approach towards stress in the corporate and SME segment. The deposit traction was mainly led by the term deposit while CASA is trending at an almost stable 34% range for a long time frame. The asset quality has slightly improved from 15% range on the back of fewer NCLT resolution, Further management has guided for Rs 3000 Cr of recovery going ahead which will decline the GNPA% to 14% and NNPA to 6%. However, with the sticky nature of the resolutions, we remain cautious the entire benefit of these resolutions to accrue in the medium term. Along with its mere 25% provisioning is provided in the recent Rs 2267 Cr of HFC default, so going ahead we expect elevated credit cost to affect profitability. The merger process is as per the planned scheduled while complete technological integration will take 9-12 months time frame. We maintain our NEUTRAL stance in the stock at 0.36x P/B 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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Higher Provisioning

3QFY20 Results

Above Our Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	8,478	8,350	8,898	9,413	9,631	13.6%	2.3%	32,748	34,067	4.0%
Interest Exp.	5,983	5,748	6,379	6,508	6,496	8.6%	-0.2%	23,443	23,852	1.7%
NII	2,494	2,602	2,518	2,906	3,135	25.7%	7.9%	9,305	10,215	9.8%
Other Income	1,095	1,272	990	1,143	1,110	1.4%	-2.9%	4,990	4,474	-10.3%
Total Income	3,589	3,873	3,508	4,049	4,245	18.3%	4.8%	14,295	14,689	2.8%
Ope Exp.	1,839	2,143	1,621	1,808	1,844	0.3%	1.9%	6,655	7,168	7.7%
PPP	1,750	1,730	1,886	2,241	2,401	37.2%	7.2%	7,640	7,521	-1.5%
Provisions	1,617	5,766	1,519	3,859	1,819	12.5%	-52.9%	14,281	11,448	-19.8%
PBT	133	(4,036)	367	(1,618)	582	337%	-136%	(6,641)	(3,927)	N/A
Tax	(20)	(667)	143	(425)	8	-139%	-102%	(1,394)	(979)	N/A
Net Profit	153	(3,369)	224	(1,194)	575	275%	-148%	(5,247)	(2,947)	N/A

Concall Highlights

- Yield on advances has improved by 12 bps to 8.01% while the cost of the deposit has come down by 13 bps to 5.53%. NIM improved by 12 bps to 2.47%.
- There was elevated provision of Rs 265 Cr of employee expense during the quarter.
- Advances have grown at 5.8% while deposit has grown at 10.6%.
- Management has guided for a credit growth of 7-9% while deposit growth of 9-11% NIM at 2.30%, Delinquency in the 5% range, credit cost at 3%, PCR at 70%, GNPA at 14%, NNPA at 6% and C/I around 46% by Mar 20.
- Slippages during the quarter stood at Rs 5112 Cr, of which includes Rs 2267 Cr of HFC exposure, Rs 300 Cr of exposure to construction finance and Rs 150 Cr of road exposure.
- Union Bank has received recovery amounting to Rs 328 Cr (ESSAR steel) in the written-off account during the quarter.
- Recoveries have come from ESSAR Steel, Prayagraj & Ruchi Soya. Prayagraj has an exposure of Rs 543 Cr where recovery stood at Rs 231 Cr while Ruchi Soya has Rs 240 Cr of exposure with Rs 136 Cr of recovery.
- DHFL exposure stood at Rs 2267 Cr with PCR standing at 25%. The investment exposure of DHFL also has a 25% PCR.
- For 4QFY20 recoveries are expected to be around Rs 3000 Cr from Bhusan Power, Religare Fininvest, Jindal Thermal, Anrak aluminum and Alok industries. Bhusan, anrak aluminum, and Alok industries are expected to have around Rs 743 Cr, Rs 147 Cr & Rs 104 Cr of recovery.
- Management has guided the slippages to range between Rs 2000-2500 Cr, MSME slippages stood at Rs 1121 Cr, Agriculture contributed Rs 714 Cr. SMA 2 stood at Rs 10300 Cr out of which corporate is at Rs 2100 Cr where management is confident of not much of a stress.
- Union Bank has Rs 4600 Cr of Power distribution exposure in Karnataka, Orissa, etc.
- The PCR stood at 67.42% as at 3QFY20 with Rs 800 Cr of provisioning write back from SR steel. NPA divergence has entirely absorbed in 2QFY20.
- Outstanding security receipts stood at Rs 720 v/s Rs 920 QoQ.
- Out of the total book of Rs 3800 Cr Real estate's amounting Rs 700 Cr may become eligible for in the RBI dispensation.
- Management has guided to reveal the swap ratio in the near term. The technological integration may take another 9-12 months but in the near term basic services will be provided.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	45.5	47.8	51.2	55.3	46.2	44.7	43.4	-7.80	-1.23
Empl. Cost/ Tot. Exp. %	44.1	47.9	43.7	45.8	44.5	41.9	47.0	3.22	5.02
Other Exp/Tot. Exp.%	55.9	52.1	56.3	54.2	55.5	58.1	53.0	-3.22	-5.02
Provision/PPP %	106.7	93.4	92.4	333.3	80.5	172.2	75.7	-16.64	-96.47
Tax Rate %	192.3	(19.5)	(15.0)	16.5	38.9	26.2	1.4	16.33	-24.88
Int Exp./Int Inc. (%)	69.8	70.8	70.6	68.8	71.7	69.1	67.5	-3.13	-1.68
Other Inc./Net Inc. %	46.0	36.1	43.9	48.9	39.3	28.2	26.2	-4.35	-2.07
PAT/ Net Income %	3.4	4.1	4.3	(87.0)	6.4	(29.5)	13.5	9.27	43.01
PAT Growth %	11.1	109	112.3	(30.4)	73.3	958.5	275.0	N/A	N/A
NII Growth % (YoY)	17.1	7.4	(2.1)	18.6	(4.1)	16.6	25.7	27.80	9.12
Op. Profit Growth YoY %	1.6	(8.6)	5.8	(8.4)	(9.7)	26.5	37.2	31.41	10.74

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	7.9	7.7	7.8	7.5	7.8	7.9	7.9	0.15	0.01
Yield on Total Assets	6.9	6.9	6.9	6.7	6.9	6.9	6.9	0.03	0.03
Cost of Deposits	5.5	5.5	5.6	5.7	5.6	5.7	5.6	0.01	-0.06
Cost of Funds	4.8	4.9	4.9	4.6	4.9	4.8	4.8	-0.07	0.04
NIM	2.3	2.2	2.2	2.3	2.1	2.4	2.5	0.24	0.12

Exhibit: Yield and Cost

Spreads has Remained Stable

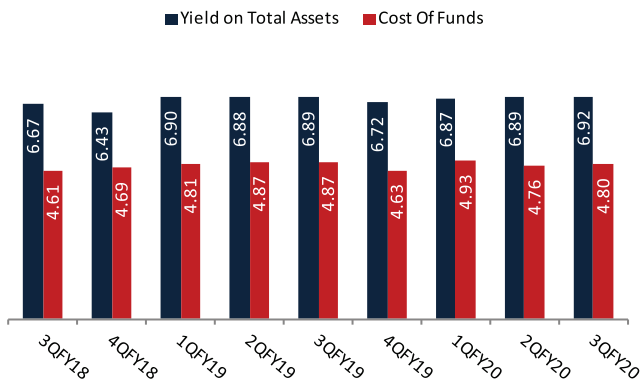
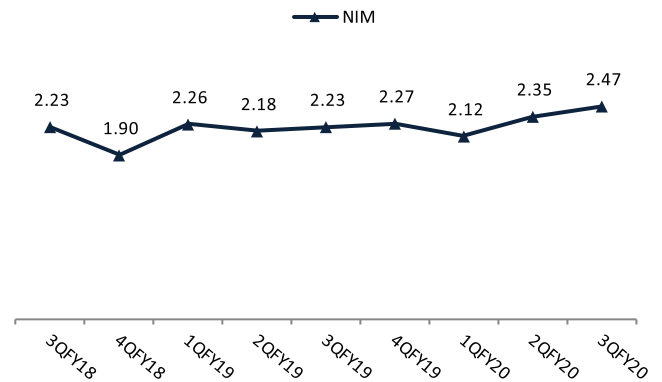


Exhibit: Net Interest Margin

NIM has Improved Sequentially



Other Income Break Up-

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Fee income	597	1127	707	641	660	867	500	605	648
Growth YoY %	26.5	75.8	16.7	16.8	10.6	(23.1)	(29.3)	(5.6)	(1.8)
Treasury income	155	277	288	153	191	266	345	379	136
Profit on Sale of Investments	6	132	194	82	110	188	255	292	82
Exchange Profit	150	145	95	71	81	78	90	87	53
Total Other Income	873	1485	1207	899	1095	1271	990	1142	1112
Growth YoY %	(34.8)	2.7	(14.7)	(26.1)	25.4	(14.4)	(18.0)	27.0	2.0

Exhibit: Fee Income/Advances %

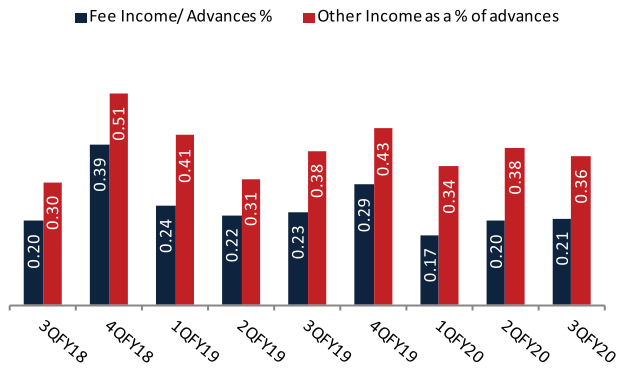
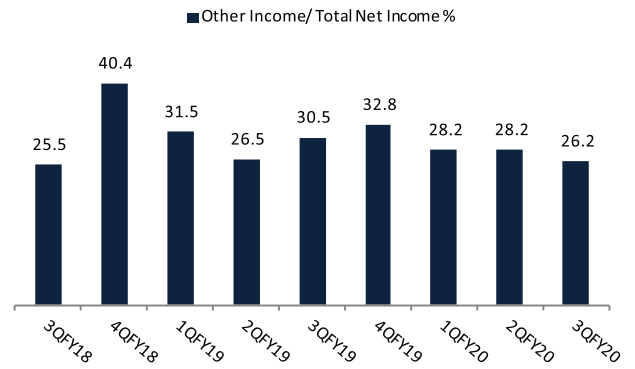


Exhibit: Other Income/ Total Income %



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	50,973	50,157	49,713	48,729	48,812	49,850	49,924	0%	0%
GNPA %	16.0	15.7	15.7	15.0	15.2	15.2	14.9	-0.8	-0.38
NNPA (Rs in Cr)	25,508	24,657	24,142	20,332	21,231	20,791	21,510	-11%	3%
NNPA %	8.7	8.4	8.3	6.9	7.2	7.0	7.0	-1.28	0.01
Slippages (Rs in Cr)	4,652	2,667	2,983	3,275	3,090	4,219	5,112	71%	21%
PCR %	50.0	50.8	51.4	58.3	56.5	58.3	67.4	15.98	9.13

Exhibit: Asset Quality

Asset quality has Improved Sequentially

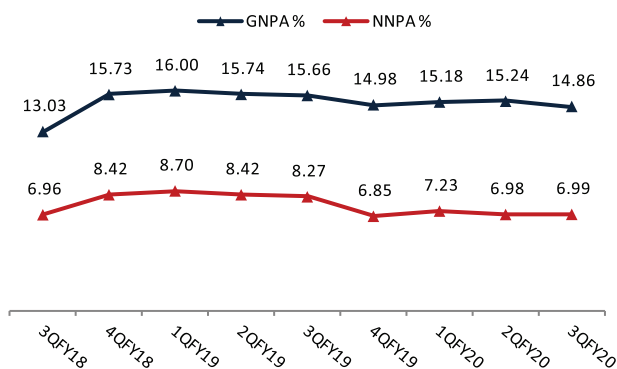


Exhibit: Provisions

PCR has Improved Sequentially

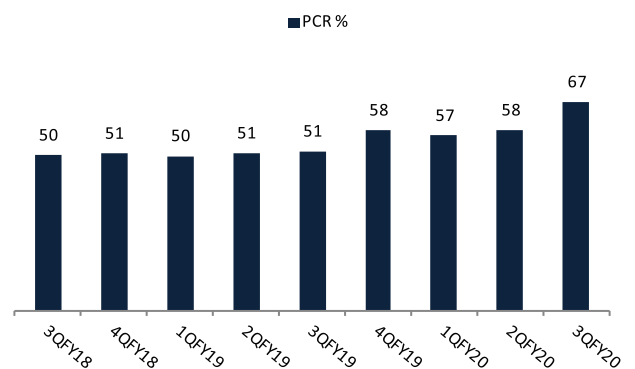


Exhibit: Advances Performance

Advances Growth has Improved Marginally

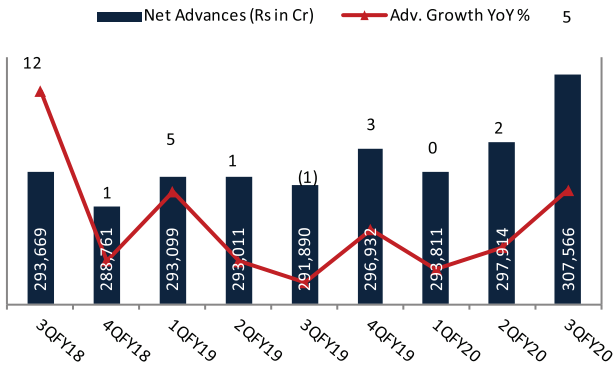


Exhibit: Advances Breakup%

Stable Portfolio Mix QoQ

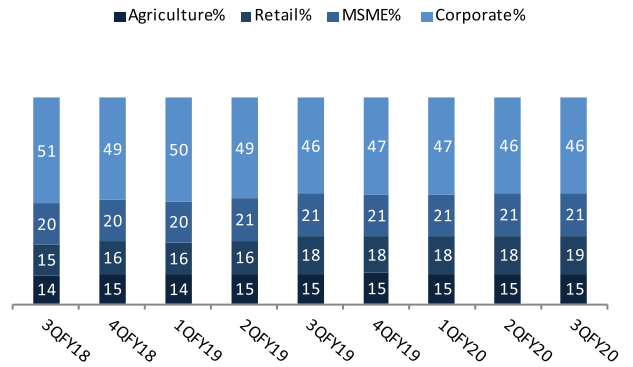


Exhibit: Deposits Performance

Deposits growth is Steady

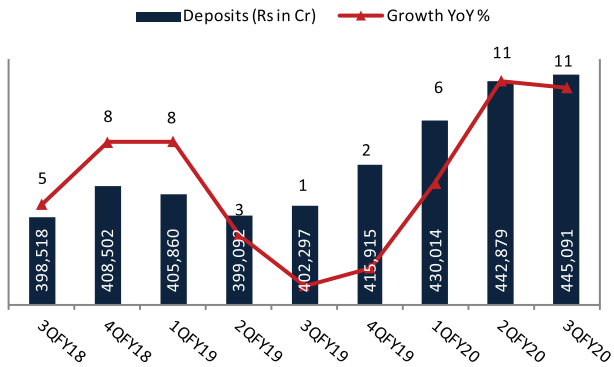


Exhibit: CASA Performance

CASA growth Improved

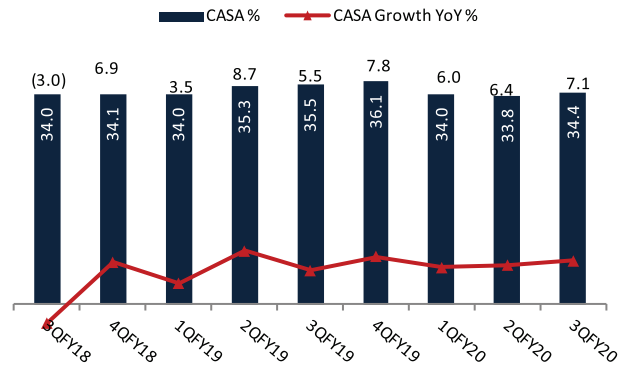


Exhibit: Credit Deposit Ratio

CD ratio has Improved

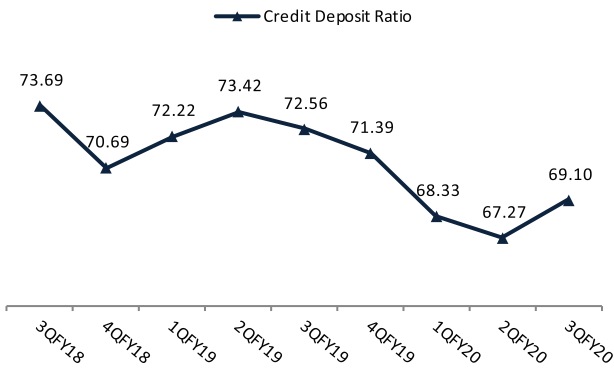
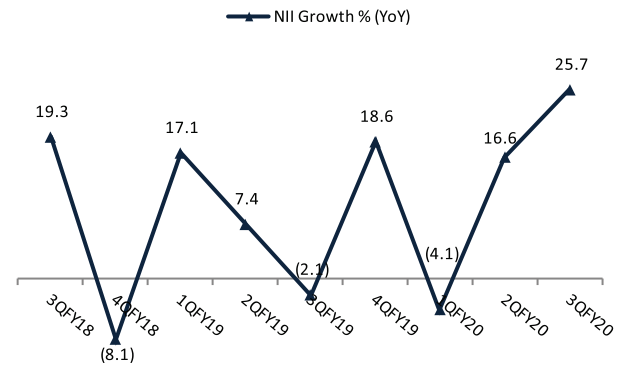


Exhibit: NII Growth

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	24581	25837
Networth	18475	19761	22891	23435	25097	26487	26344	27600
Deposits	297676	316870	342720	378391	408502	415915	454132	472297
Change (%)	12.9	6.4	8.2	10.4	8.0	1.8	9.2	4.0
CASA Deposits	87801	92650	110876	130308	139241	150141	156675	170027
Change (%)	7.6	5.5	19.7	17.5	6.9	7.8	4.4	8.5
Borrowings	29317	35360	30958	41226	45681	42864	45413	49591
Other Liabilities & Prov.	8313	9625	8127	9111	8101	8773	9461	11151
Total Liabilities	353781	381616	404696	452704	487380	494039	535349	560639
Cash & Bank	23073	22378	29277	32822	49441	43046	51666	58378
Investments	93723	94093	89208	112149	123754	126047	145322	151135
Change (%)	16.0	0.4	-5.2	25.7	10.3	1.9	15.3	4.0
Advances	229104	255655	267354	286467	288761	296932	308809	321162
Change (%)	10.1	11.6	4.6	7.1	0.8	2.8	4.0	4.0
Fixed Assets	2608	2682	3940	3894	3833	3762	3725	3687
Other Assets	5272	6808	14917	17372	21591	24252	25828	26277
Total Assets	353781	381616	404696	452704	487380	494039	535349	560639

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	29349	32084	32199	32660	32748	34067	37701	39289
Interest expended	21470	23640	23886	23757	23443	23852	26106	27695
Net Interest Income	7879	8444	8313	8903	9305	10215	11595	11594
Change (%)	4.5	7.2	-1.5	7.1	4.5	9.8	13.5	0.0
Other Income	2822	3523	3632	4965	4990	4474	4417	4432
Change (%)	10.6	24.9	3.1	36.7	0.5	-10.3	-1.3	0.4
Core Fee Income	1634	1872	1879	2068	2879	2875	2371	2513
Treasury Income	922	1333	1567	2695	1834	898	859	0
Others	266	318	186	202	277	701	1187	1919
Total Net Income	10701	11967	11945	13868	14295	14689	16011	16026
Operating Expenses	5483	6143	6223	6438	6655	7168	7231	7452
Change (%)	21.5	12.0	1.3	3.5	3.4	7.7	0.9	3.1
Employee Expenses	3308	3786	3620	3434	3155	3151	3229	3365
Pre-provisioning Profit	5218	5823	5722	7430	7640	7521	8781	8574
Change (%)	-6.5	11.6	-1.7	29.9	2.8	-1.5	16.7	-2.4
Provisions	3149	3040	3877	7088	14281	11448	9123	6876
Change (%)	25.0	-3.5	27.5	82.8	101.5	-19.8	-20.3	-24.6
PBT	2069	2783	1765	343	-6641	-3927	-343	1697
Tax	373	1002	414	-213	-1394	-979	-199	441
Profit After Tax	1696	1782	1352	555	-5247	-2947	-144	1256
Change (%)	-21.4	5.0	-24.1	58.9	-1045.1	43.8	-95.1	-974.2

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	10	12	5	7	1	3	4	4
Deposit Growth (%)	13	6	8	10	8	2	9	4
C/D Ratio (%)	77.0	80.7	78.0	75.7	70.7	71.4	68.0	68.0
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	11.8	11.7
Tier 1 (%)	7.5	7.5	8.1	9.0	9.1	9.5	9.4	9.4
Tier 2 (%)	3.3	2.7	2.4	2.8	2.4	2.0	2.4	2.3

Assets Quality Metrics

Gross NPA (Rs)	9,564	13,031	24,171	33,712	49,369	48,729	49,509	49,386
Gross NPA (%)	4.1	5.0	8.7	11.2	15.7	15.0	14.6	14.0
Net NPA(Rs)	5,340	6,919	14,026	18,833	24,326	20,332	21,289	21,236
Net NPA (%)	2.3	2.7	5.3	6.6	8.4	6.9	6.9	6.6
Slippages (%)	3	3	5	5	8	5	6	5
Provision Coverage (%)	60	59	51	51	57	66	67	65
Provision/Average Advances (%)	1.4	1.3	1.5	2.6	5.0	3.9	3.0	2.2

Margin Metrics

Yield On Advances (%)	9.9	9.9	9.0	8.3	7.9	8.1	8.4	8.4
Yield On Investment (%)	8.3	7.6	8.2	8.6	7.4	7.2	8.0	7.6
Yield on Earning Assets (%)	9.4	9.4	8.8	8.1	7.5	7.5	7.9	7.9
Cost Of Deposits (%)	7.1	7.0	6.7	6.1	-	5.3	5.6	5.6
Cost Of Funds (%)	6.9	6.8	6.5	5.9	5.3	5.2	5.4	5.3
Spread (%)	2.5	2.6	2.3	2.2	2.2	2.3	2.6	2.5
NIM (%)	2.5	2.5	2.3	2.2	2.1	2.2	2.4	2.3

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	73.2	73.7	74.2	72.7	71.6	70.0	69.2	70.5
Fee Income/NII (%)	20.7	22.2	22.6	23.2	30.9	28.1	20.4	21.7
Cost to Income (%)	51.2	51.3	52.1	46.4	46.6	48.8	45.2	46.5
Cost on Average Assets (%)	1.6	1.7	1.6	1.5	1.4	1.5	1.4	1.4
Tax Rate (%)	18.0	36.0	23.4	(62.1)	21.0	24.9	58.1	26.0

Valuation Ratio Metrics

EPS (Rs)	26.9	28.0	19.7	8.1	(44.9)	(16.7)	(0.8)	7.1
Change (%)	(25.7)	4.3	(29.9)	(58.9)	(655.6)	63	95.1	974.2
ROAE (%)	9.5	9.3	6.3	2.4	(21.6)	(11.4)	(0.5)	4.7
ROAA (%)	0.5	0.5	0.3	0.1	(1.1)	(0.6)	(0.0)	0.2
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	149.4	156.6
Change (%)	1	6	7	2	(37)	(30)	(1)	5
P/B (X)	0.5	0.5	0.4	0.5	0.4	0.6	0.3	0.3
P/E (X)	5.1	5.6	6.7	19.3	(2.1)	(5.7)	(62.6)	7.2

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.8	8.7	8.2	7.6	7.0	6.9	7.3	7.2
Interest expended	6.5	6.4	6.1	5.5	5.0	4.9	5.1	5.1
Net Interest Income	2.4	2.3	2.1	2.1	2.0	2.1	2.3	2.1
Non-Fund Based Income	0.8	1.0	0.9	1.2	1.1	0.9	0.9	0.8
Core Fee Income	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5
Trading and Other Income	0.4	0.4	0.4	0.7	0.4	0.3	0.4	0.4
Core Operating Income	2.9	2.8	2.6	2.6	2.6	2.7	2.7	2.6
Total Income	3.2	3.3	3.0	3.2	3.0	3.0	3.1	2.9
Total Operating Expenses	1.6	1.7	1.6	1.5	1.4	1.5	1.4	1.4
Employee Expenses	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.6
Other Expenses	0.7	0.6	0.7	0.7	0.7	0.8	0.8	0.7
Operating Profit	1.6	1.6	1.5	1.7	1.6	1.5	1.7	1.6
Provisions	0.9	0.8	1.0	1.7	3.0	2.3	1.8	1.3
Others	-	-	(0.0)	-	-	-	-	-
PBT	0.6	0.8	0.4	0.1	(1.4)	(0.8)	(0.1)	0.3
Tax	0.1	0.3	0.1	(0.0)	(0.3)	(0.2)	(0.0)	0.1
PAT/RoAA	0.5	0.5	0.3	0.1	(1.1)	(0.6)	(0.0)	0.2
Equity Multiplier (x)	18.6	19.2	18.4	18.5	19.4	19.0	19.5	20.3
ROAE	9.5	9.3	6.3	2.4	(21.6)	(11.4)	(0.5)	4.7

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