

Rating: REDUCE | CMP: Rs76 | TP: Rs71

May 14, 2019

## Q4FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	71		79	
NII (Rs. m)	114,730	127,118	112,790	121,313
% Chng.	1.7	4.8		
Op. Profit (Rs. m)	82,755	92,616	79,212	82,377
% Chng.	4.5	12.4		
EPS (Rs.)	5.3	12.8	8.5	6.7
% Chng.	(37.8)	92.8		

### Key Financials

	FY18	FY19	FY20E	FY21E
NII (Rs m)	93,047	102,149	114,730	127,118
Op. Profit (Rs m)	76,396	73,412	82,755	92,616
PAT (Rs m)	(52,474)	(31,274)	9,266	22,629
EPS (Rs.)	(56.5)	(21.3)	5.3	12.8
Gr. (%)	(800.1)	(62.3)	(124.6)	144.2
DPS (Rs.)	-	-	1.0	2.5
Yield (%)	-	-	1.3	3.3
NIM (%)	2.1	2.2	2.4	2.5
RoAE (%)	(21.6)	(12.1)	3.5	8.1
RoAA (%)	(1.1)	(0.6)	0.2	0.4
P/BV (x)	0.4	0.6	0.5	0.5
P/ABV (x)	1.5	1.3	1.0	0.8
PE (x)	(1.3)	(3.6)	14.4	5.9
CAR (%)	11.5	11.8	12.4	13.2

### Key Data

UNBK.BO | UNBK IN

52-W High / Low	Rs.100 / Rs.61
Sensex / Nifty	37,091 / 11,148
Market Cap	Rs.134bn/ \$ 1,896m
Shares Outstanding	1,763m
3M Avg. Daily Value	Rs.1700.17m

### Shareholding Pattern (%)

Promoter's	67.43
Foreign	4.79
Domestic Institution	19.88
Public & Others	7.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(18.9)	(5.1)	(13.9)
Relative	(15.2)	(10.1)	(17.5)

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## Asset Quality issues continue

### Quick Pointers

- Operating performance in line, however higher provisions dented bottom line on RBI's provision divergence & ageing provisions
- Slippages of Rs32.7bn continued to be at higher rate and from all sectors

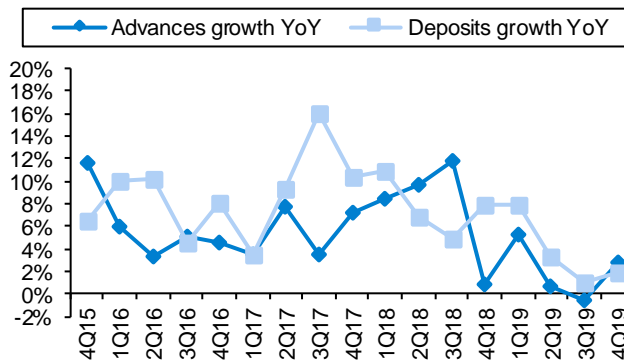
**Union Bank posted loss of Rs33.6bn of PAT (v/s PLE of Rs1.7bn loss) on back of making higher provisions from RBI's divergence report (Rs22.8bn) and ageing of NPA helping improve PCR to 58.3% from 51.4% in Q3FY19. We have been mentioning that bank remains under provided on provisions and lags amongst banking peers (partly also on delayed recognitions) and hence going ahead will continue to see higher provisions (enhancing PCR) keeping overall earnings under pressure. However, bank should see lower interest reversals, better recoveries and improved mix towards non-corporate helping NII and NIMs helping sustain operating performance. We retain "REDUCE" with TP of Rs71 (from Rs79) based on 1.0x Mar-FY21 ABV.**

- Core performance in line:** Bank reported PPOP of Rs17.3bn (v/s PLE of Rs16.5bn) driven by growth in other income and decent NII growth of 19% YoY. NIM came at 2.27%/2.23% in 4Q19/FY19 as largely supported by dip in CoF by 20bps/22bps in 4Q19/FY19.
- Loan growth tepid but domestic better:** Loan growth remained muted at 3.7%YoY as overseas loan plunged 43% YoY on consolidation of business, while domestic loan growth was 8% YoY led by retail growth of 15.5%YoY and Agri growth of 7%YoY. We factor in loan growth of 5.5%/7% in FY20/21 with domestic driving growth and from retail. **On liability side,** deposits grew 2% YoY with CASA growth at 8%YoY, which took CASA to 36%. Bank has been taking lower reliance on high cost deposits as loan opportunities have been much lower.
- High slippages still stinging:** GNPA/NNPA were at 14.98%/6.85% down 80bps/160bps QoQ, although slippages of Rs32.7bn have been higher added from almost all segments Agri, corporate & SME. Overall asset quality was helped by higher write-off. Within corporate slippages, bank booked IL&FS fully (slippage of ~Rs8.85bn). Also, accounts of ADAG partly slipped (non-financial services) slipped during the quarter. Bank guides higher provisions will continue to enhance PCR further with ageing of NPAs, while foresees lower slippages and higher recoveries which should help bring down NNPA's below 6% in FY20.
- Capital requirement remains high:** Bank's tier-1 capital stood at 9.5% with CET-1 at 8.0% in FY19 which is near threshold of requirement. Bank will require further round of capital infusion leading to higher dilution for minority shareholders. Also, infused capital in FY20 will be for incremental provisions as PCR is lowest amongst peer banks and hence will require multiple round of infusion in next two years. Retain our Reduce stance.

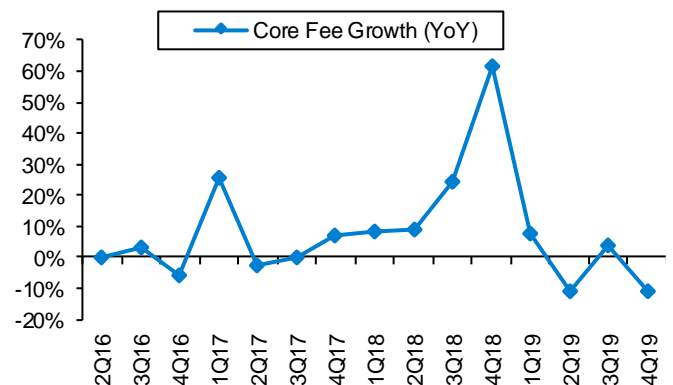
**Exhibit 1: Core performance in line; higher provisions dented bottom line**

(Rs m)	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Interest Income	83,495	81,121	2.9	84,775	(1.5)
Interest Expenses	57,480	59,190	(2.9)	59,834	(3.9)
<b>Net interest income (NII)</b>	<b>26,015</b>	<b>21,931</b>	<b>18.6</b>	<b>24,942</b>	<b>4.3</b>
- Treasury income	1,880	1,320	42.4	1,100	70.9
Other income	12,715	14,848	(14.4)	10,951	16.1
<b>Total income</b>	<b>38,730</b>	<b>36,778</b>	<b>5.3</b>	<b>35,892</b>	<b>7.9</b>
Operating expenses	21,428	17,884	19.8	18,389	16.5
-Staff expenses	9,811	8,154	20.3	8,042	22.0
-Other expenses	11,617	9,731	19.4	10,347	12.3
<b>Operating profit</b>	<b>17,302</b>	<b>18,894</b>	<b>(8.4)</b>	<b>17,504</b>	<b>(1.2)</b>
Core operating profit	15,422	17,574	(12.2)	16,404	(6.0)
Total provisions	57,662	56,679	1.7	16,171	256.6
<b>Profit before tax</b>	<b>(40,360)</b>	<b>(37,785)</b>	<b>6.8</b>	<b>1,333</b>	<b>(3,128.9)</b>
Tax	(6,667)	(11,951)	(44.2)	(200)	3,240.3
<b>Profit after tax</b>	<b>(33,692)</b>	<b>(25,834)</b>	<b>30.4</b>	<b>1,532</b>	<b>(2,299.1)</b>
<b>Balance sheet</b>					
Deposits	41,59,153	40,85,016	1.8	40,22,970	3.4
Advances	29,69,322	28,87,606	2.8	29,18,900	1.7
<b>Ratios (%)</b>					
<b>NIM</b>	<b>2.3</b>	<b>2.0</b>	<b>28</b>	<b>2.2</b>	<b>4</b>
Yield on Advances	7.5	7.3	22	7.8	(24)
Cost of Funds	4.6	4.7	(6)	4.9	(24)
<b>Asset Quality</b>					
Gross NPA (Rs m)	4,87,292	4,93,699	(1.3)	4,97,133	(2.0)
Net NPA (Rs m)	2,03,324	2,43,263	(16.4)	2,41,416	(15.8)
<b>Gross NPL ratio</b>	<b>15.0</b>	<b>15.7</b>	<b>(75)</b>	<b>15.7</b>	<b>(68)</b>
<b>Net NPL ratio</b>	<b>6.9</b>	<b>8.4</b>	<b>(157)</b>	<b>8.3</b>	<b>(142)</b>
Coverage ratio	58.3	50.7	755	51.4	684
<b>Business &amp; Other Ratios</b>					
Low-cost deposit mix	36.1	34.1	200	35.5	60
Cost-income ratio	55.3	48.6	670	51.2	409
Non int. inc / total income	32.8	40.4	(754)	30.5	232
Credit deposit ratio	71.4	70.7	70	72.6	(116)
CAR	11.8	11.5	28	11.4	35
Tier-I	9.5	9.1	41	9.0	46

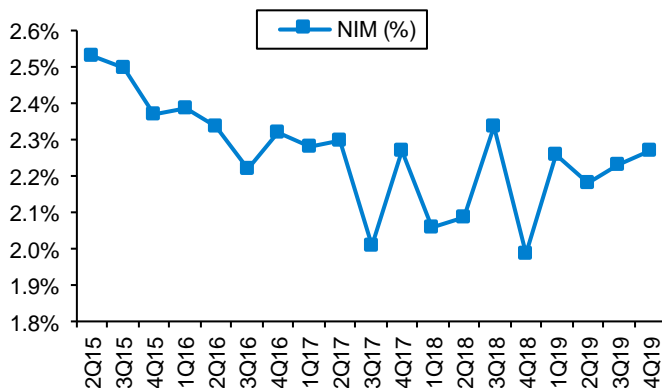
Source: Company, PL

**Exhibit 2: Overseas book impacting global growth**


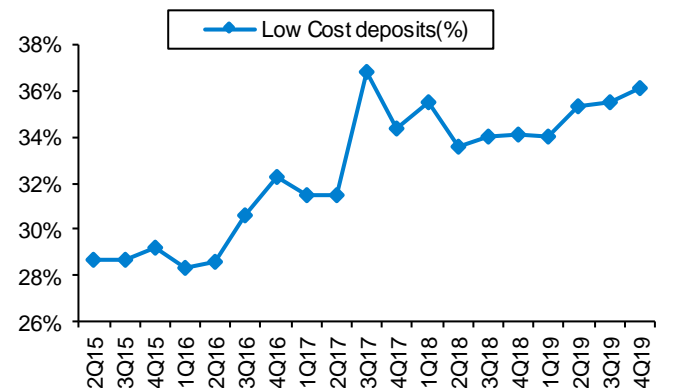
Source: Company, PL

**Exhibit 3: Adjusting for IT refund, core fee growth was healthy**


Source: Company, PL

**Exhibit 4: NIM aided by lower cost of funds**


Source: Company, PL

**Exhibit 5: CASA mix gradually inching up**


Source: Company, PL

**Exhibit 6: Gross loan book growth was mainly led by Retail and Agri**

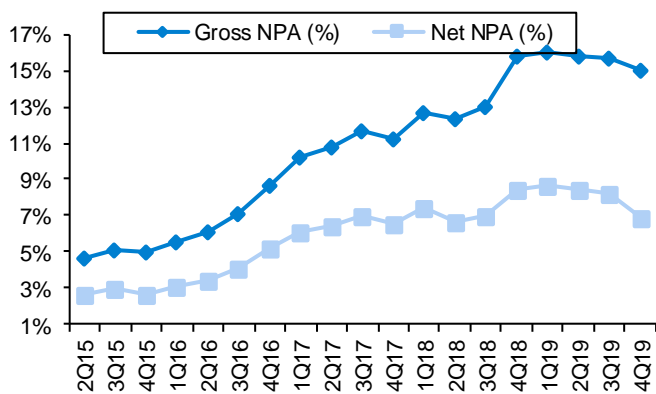
Loan book break-up	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Retail Loans	5,70,920	4,94,460	15.5	5,65,240	1.0
Agri Loans	4,89,710	4,58,250	6.9	4,72,570	3.6
MSME Loan	6,71,740	6,33,710	6.0	6,61,470	1.6
International Loans	1,44,600	2,55,240	(43.3)	1,41,830	2.0
Large Corporate & Others	12,95,676	12,89,209	0.5	13,19,207	(1.8)
<b>Total Gross Loan Book</b>	<b>32,53,920</b>	<b>31,38,600</b>	<b>3.7</b>	<b>31,75,130</b>	<b>2.5</b>

Source: Company, PL

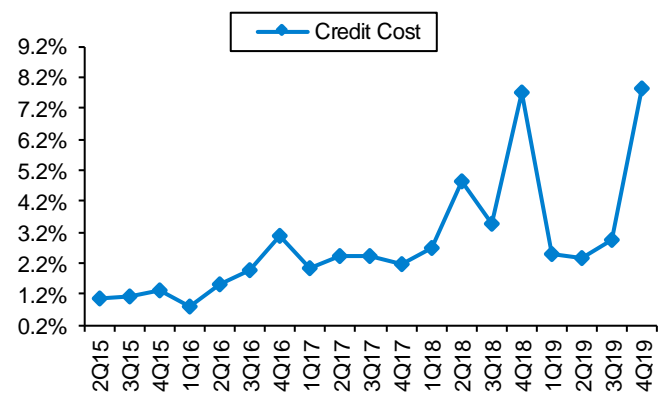
**Exhibit 7: Impairment continues to be high but stress subsiding from large corporates**

Union	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Opening	2,41,710	2,72,810	2,98,620	3,24,030	3,37,120	3,72,860	3,82,860	4,09,880	4,93,690	5,09,730	5,01,570	4,97,130
Additions	36,030	33,960	32,940	29,510	44,530	26,860	41,870	1,00,430	46,520	26,670	29,830	32,750
Less: Reductions	4,930	8,150	7,530	16,420	8,790	16,860	14,850	16,620	30,490	34,830	34,270	42,590
Due to Write off	20	1,480	3,980	7,160	3,400	11,100	7,940	12,330	14,260	18,680	16,300	28,470
Due to R&U	4,910	6,670	3,550	9,260	5,390	5,760	6,910	4,290	16,230	16,150	17,970	14,120
<b>Gross NPAs closing</b>	<b>2,72,810</b>	<b>2,98,620</b>	<b>3,24,030</b>	<b>3,37,120</b>	<b>3,72,860</b>	<b>3,82,860</b>	<b>4,09,880</b>	<b>4,93,690</b>	<b>5,09,720</b>	<b>5,01,570</b>	<b>4,97,130</b>	<b>4,87,290</b>
Gross NPA Ratio	10.16%	10.73%	11.70%	11.17%	12.63%	12.35%	13.03%	15.73%	16.00%	15.74%	15.66%	14.98%
<b>Slippages (Annualized)</b>	<b>5.4%</b>	<b>5.3%</b>	<b>5.0%</b>	<b>4.5%</b>	<b>6.2%</b>	<b>3.9%</b>	<b>5.8%</b>	<b>13.7%</b>	<b>6.4%</b>	<b>3.6%</b>	<b>4.1%</b>	<b>4.5%</b>

Source: Company, PL

**Exhibit 8: GNPA declined as write off rose**


Source: Company, PL

**Exhibit 9: Credit cost zoomed to 7.9%**


Source: Company, PL

**Exhibit 10: Return ratios to remain sub-optimal**

RoAE decomposition	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY20E
Interest income	8.82	8.73	8.19	7.62	6.97	6.94	7.17	7.29
Interest expenses	6.45	6.43	6.08	5.55	4.99	4.86	4.89	4.90
<b>Net interest income</b>	<b>2.37</b>	<b>2.30</b>	<b>2.11</b>	<b>2.08</b>	<b>1.98</b>	<b>2.08</b>	<b>2.27</b>	<b>2.38</b>
Treasury income	0.37	0.46	0.40	0.70	0.44	0.51	0.52	0.52
Other Inc. from operations	0.48	0.50	0.53	0.46	0.62	0.40	0.41	0.42
<b>Total income</b>	<b>3.22</b>	<b>3.25</b>	<b>3.04</b>	<b>3.24</b>	<b>3.04</b>	<b>2.99</b>	<b>3.20</b>	<b>3.33</b>
Employee expenses	0.99	1.03	0.94	0.80	0.69	0.64	0.65	0.64
Other operating expenses	0.65	0.64	0.66	0.70	0.74	0.86	0.92	0.95
<b>Operating profit</b>	<b>1.57</b>	<b>1.58</b>	<b>1.44</b>	<b>1.73</b>	<b>1.60</b>	<b>1.50</b>	<b>1.64</b>	<b>1.74</b>
Tax	0.19	0.27	0.11	(0.05)	(0.30)	(0.20)	0.06	0.14
Loan loss provisions	0.87	0.83	0.99	1.65	3.02	2.33	1.40	1.17
<b>RoAA</b>	<b>0.51</b>	<b>0.48</b>	<b>0.34</b>	<b>0.13</b>	<b>(1.12)</b>	<b>(0.64)</b>	<b>0.18</b>	<b>0.42</b>
<b>RoAE</b>	<b>9.48</b>	<b>9.32</b>	<b>6.34</b>	<b>2.69</b>	<b>(24.00)</b>	<b>(13.34)</b>	<b>3.80</b>	<b>8.90</b>

Source: Company, PL

**Exhibit 11: We change TP to Rs71 (from Rs79) based on 1.0x P/ABV Mar-21**

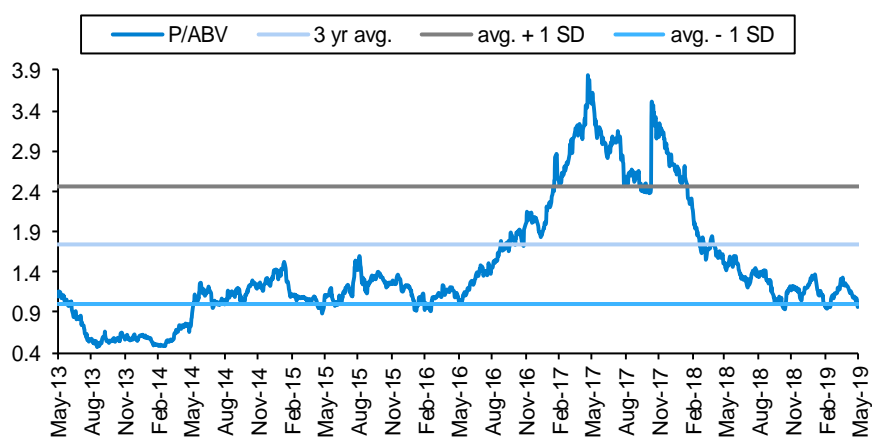
PT calculation and upside	
Terminal growth	5.0%
Market risk premium	6.0%
<b>Risk-free rate</b>	7.5%
Adjusted beta	1.07
<b>Cost of equity</b>	13.9%
<b>Fair price - P/ABV</b>	<b>71</b>
<b>Target P/ABV</b>	<b>1.0</b>
<b>Target P/E</b>	<b>13.5</b>
Current price, Rs	76
<b>Upside (%)</b>	<b>-6%</b>
Dividend yield (%)	0%
<b>Total return (%)</b>	<b>-6%</b>

Source: Company, PL

**Exhibit 12: Change in estimates table**

(Rs mn)	Old		Revised		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income	99,954	1,13,469	1,14,730	1,27,118	14.8	12.0
Operating profit	79,934	89,322	82,755	92,616	3.5	3.7
Net profit	7,644	16,855	9,266	22,629	21.2	34.3
EPS (Rs)	6.5	14.4	5.3	12.8	(19.6)	(11.0)
ABVPS (Rs)	56.8	84.8	74.0	99.0	30.3	16.7
<b>Price target (Rs)</b>	<b>79</b>		<b>71</b>		<b>(10)</b>	
<b>Recommendation</b>	<b>REDUCE</b>		<b>REDUCE</b>			

Source: Company, PL

**Exhibit 13: Union Bank - one year forward P/ABV trends**


Source: Company, PL



**Income Statement (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Earned from Adv.	227,730	237,719	252,241	271,299
Int. Earned from invt.	87,800	90,033	96,595	104,419
Others	557	901	952	771
<b>Total Interest Income</b>	<b>327,480</b>	<b>340,667</b>	<b>361,652</b>	<b>388,689</b>
Interest Expenses	234,433	238,518	246,922	261,571
<b>Net Interest Income</b>	<b>93,047</b>	<b>102,149</b>	<b>114,730</b>	<b>127,118</b>
Growth(%)	3.1	2.8	10.1	9.7
Non Interest Income	49,899	44,740	46,976	50,265
<b>Net Total Income</b>	<b>142,945</b>	<b>146,889</b>	<b>161,706</b>	<b>177,383</b>
Growth(%)	0.3	2.1	6.0	7.4
Employee Expenses	31,552	31,509	32,770	34,080
Other Expenses	33,297	40,520	44,572	49,029
Operating Expenses	66,550	73,476	78,951	84,767
<b>Operating Profit</b>	<b>76,396</b>	<b>73,412</b>	<b>82,755</b>	<b>92,616</b>
Growth(%)	2.8	(3.9)	12.7	11.9
NPA Provision	134,998	114,362	70,172	61,603
Total Provisions	142,807	114,479	70,400	62,444
<b>PBT</b>	<b>(66,411)</b>	<b>(41,067)</b>	<b>12,355</b>	<b>30,172</b>
Tax Provision	(13,938)	(9,792)	3,089	7,543
Effective tax rate (%)	21.0	23.8	25.0	25.0
<b>PAT</b>	<b>(52,474)</b>	<b>(31,274)</b>	<b>9,266</b>	<b>22,629</b>
Growth(%)	(1,045.1)	(40.4)	(129.6)	144.2

**Balance Sheet (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Face value	10	10	10	10
No. of equity shares	1,169	1,763	1,763	1,763
Equity	11,686	17,630	17,630	17,630
Networth	250,968	264,870	270,216	287,542
Growth(%)	7.1	5.5	2.0	6.4
Adj. Networth to NNPA's	243,263	203,324	166,133	128,043
Deposits	4,085,016	4,159,153	4,325,519	4,628,305
Growth(%)	8.0	1.8	4.0	7.0
CASA Deposits	1,392,410	1,501,410	1,535,559	1,643,048
% of total deposits	34.1	36.1	35.5	35.5
<b>Total Liabilities</b>	<b>4,874,060</b>	<b>4,940,388</b>	<b>5,152,634</b>	<b>5,513,703</b>
Net Advances	2,887,606	2,969,322	3,132,634	3,351,919
Growth(%)	0.8	2.8	5.5	7.0
Investments	1,237,801	1,260,466	1,384,069	1,474,684
<b>Total Assets</b>	<b>4,874,060</b>	<b>4,940,388</b>	<b>5,152,634</b>	<b>5,513,703</b>
Growth (%)	7.7	1.4	4.3	7.0

**Asset Quality**

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs (Rs m)	493,699	487,292	469,159	432,067
Net NPAs (Rs m)	243,263	203,324	166,133	128,043
Gr. NPAs to Gross Adv.(%)	15.7	15.0	13.7	11.8
Net NPAs to Net Adv. (%)	8.4	6.8	5.3	3.8
NPA Coverage %	50.7	58.3	64.6	70.4

**Profitability (%)**

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	2.1	2.2	2.4	2.5
RoAA	(1.1)	(0.6)	0.2	0.4
RoAE	(21.6)	(12.1)	3.5	8.1
Tier I	9.1	9.5	9.5	9.7
CRAR	11.5	11.8	12.4	13.2

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Interest Income	87,008	85,388	84,775	83,495
Interest Expenses	60,747	60,457	59,834	57,480
<b>Net Interest Income</b>	<b>26,261</b>	<b>24,931</b>	<b>24,942</b>	<b>26,015</b>
YoY growth (%)	2.8	2.4	4.7	(2.9)
CEB	7,070	6,410	6,600	8,670
Treasury	-	-	-	-
Non Interest Income	12,080	8,994	10,951	12,715
<b>Total Income</b>	<b>99,088</b>	<b>94,383</b>	<b>95,726</b>	<b>96,210</b>
Employee Expenses	7,702	7,755	8,042	9,811
Other expenses	9,751	8,452	10,347	11,617
Operating Expenses	17,453	16,207	18,389	21,428
<b>Operating Profit</b>	<b>20,888</b>	<b>17,719</b>	<b>17,504</b>	<b>17,302</b>
YoY growth (%)	1.6	(8.6)	5.8	(8.4)
Core Operating Profits	-	-	-	-
NPA Provision	18,032	17,100	21,390	57,840
Others Provisions	22,291	16,556	16,171	57,662
Total Provisions	22,291	16,556	16,171	57,662
<b>Profit Before Tax</b>	<b>(1,403)</b>	<b>1,163</b>	<b>1,333</b>	<b>(40,360)</b>
Tax	(2,698)	(227)	(200)	(6,667)
<b>PAT</b>	<b>1,295</b>	<b>1,390</b>	<b>1,532</b>	<b>(33,692)</b>
YoY growth (%)	11.1	(109.1)	(112.3)	30.4
<b>Deposits</b>	<b>4,058,602</b>	<b>3,990,922</b>	<b>4,022,970</b>	<b>4,159,153</b>
YoY growth (%)	8.0	3.4	0.9	1.8
<b>Advances</b>	<b>2,930,987</b>	<b>2,930,110</b>	<b>2,918,900</b>	<b>2,969,322</b>
YoY growth (%)	5.3	0.7	(0.6)	2.8

**Key Ratios**

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	76	76	76	76
EPS (Rs)	(56.5)	(21.3)	5.3	12.8
Book Value (Rs)	195	137	140	150
Adj. BV (70%)(Rs)	49	56	74	99
P/E (x)	(1.3)	(3.6)	14.4	5.9
P/BV (x)	0.4	0.6	0.5	0.5
P/ABV (x)	1.5	1.3	1.0	0.8
DPS (Rs)	-	-	1.0	2.5
Dividend Payout Ratio (%)	-	-	19.0	19.5
Dividend Yield (%)	-	-	1.3	3.3

**Efficiency**

Y/e Mar	FY18	FY19	FY20E	FY21E
Cost-Income Ratio (%)	46.6	50.0	48.8	47.8
C-D Ratio (%)	70.7	71.4	72.4	72.4
Business per Emp. (Rs m)	184	184	189	198
Profit per Emp. (Rs lacs)	(14)	(8)	2	6
Business per Branch (Rs m)	1,625	1,642	1,699	1,797
Profit per Branch (Rs m)	(12)	(7)	2	5

**Du-Pont**

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	1.98	2.08	2.27	2.38
Total Income	3.04	2.99	3.20	3.33
Operating Expenses	1.42	1.50	1.56	1.59
PPoP	1.63	1.50	1.64	1.74
Total provisions	3.04	2.33	1.40	1.17
RoAA	(1.12)	(0.64)	0.18	0.42
RoAE	(24.00)	(13.34)	3.80	8.86

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-18	Reduce	79	82
2	11-Aug-18	Reduce	79	86
3	5-Oct-18	Reduce	79	68
4	7-Jan-19	Reduce	79	91
5	5-Apr-19	Reduce	79	93

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	837	741
2	Bank of Baroda	BUY	161	114
3	Bank of India	Reduce	89	106
4	Federal Bank	BUY	112	98
5	HDFC Bank	BUY	2,700	2,293
6	HDFC Standard Life Insurance Company	BUY	465	399
7	ICICI Bank	BUY	475	401
8	ICICI Prudential Life Insurance Company	BUY	511	368
9	IDFC First Bank	BUY	55	49
10	IndusInd Bank	BUY	1,791	1,768
11	Jammu & Kashmir Bank	BUY	76	59
12	Kotak Mahindra Bank	Hold	1,385	1,387
13	Max Financial Services	BUY	629	439
14	Punjab National Bank	Hold	83	73
15	SBI Life Insurance Company	BUY	779	612
16	South Indian Bank	BUY	18	14
17	State Bank of India	BUY	427	308
18	Union Bank of India	Reduce	79	93
19	YES Bank	Reduce	190	238

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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