

CMP (Rs) 134

TP (Rs) 115

Maintain Underperformer

Key growth figures	YoY (%)	QoQ (%)		
	Actual	Actual	Our Est	Consensus
NII	6.7	-6.1	-3.7	-1.8
Operating Profit	26.6	-3.6	-20.3	-18.8
Adj PAT	-29.9	7.7	55.9	62.4
EPS	-29.9	7.7	55.9	62.4

Key Points from Results

- Despite strong treasury gains, UNBK reported 1QFY18 PAT at Rs 1.2 bn, pulled down by huge provisioning and depressed NIMs, in turn led by higher GNPA formation.
- Loan book declined 2.8% QoQ, while NIM declined sharply by 21 bps QoQ to 2.06%.
- CET 1 remains low at 7.73%, while Tier 1 at 9.24%.

Year end

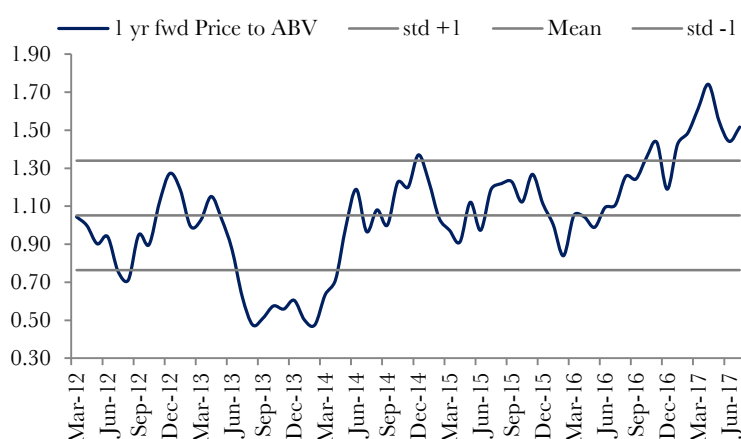
Valuations

	FY16	FY17	FY18E	FY19E
P/ABV (x)	0.8	1.1	1.4	1.1
PER (x)	6.6	16.6	13.6	8.1
Div./Yield (%)	1.5	n/a	1.1	1.8

Key Ratios

NIM (%)	2.3	2.3	2.2	2.2
ROA (%)	0.3	0.1	0.1	0.2
ROE (%)	7.0	2.7	3.2	5.3
Book Value	295.4	305.2	303.8	317.5
Adj. Book Value	160.8	124.4	96.5	119.6

Historic valuation chart



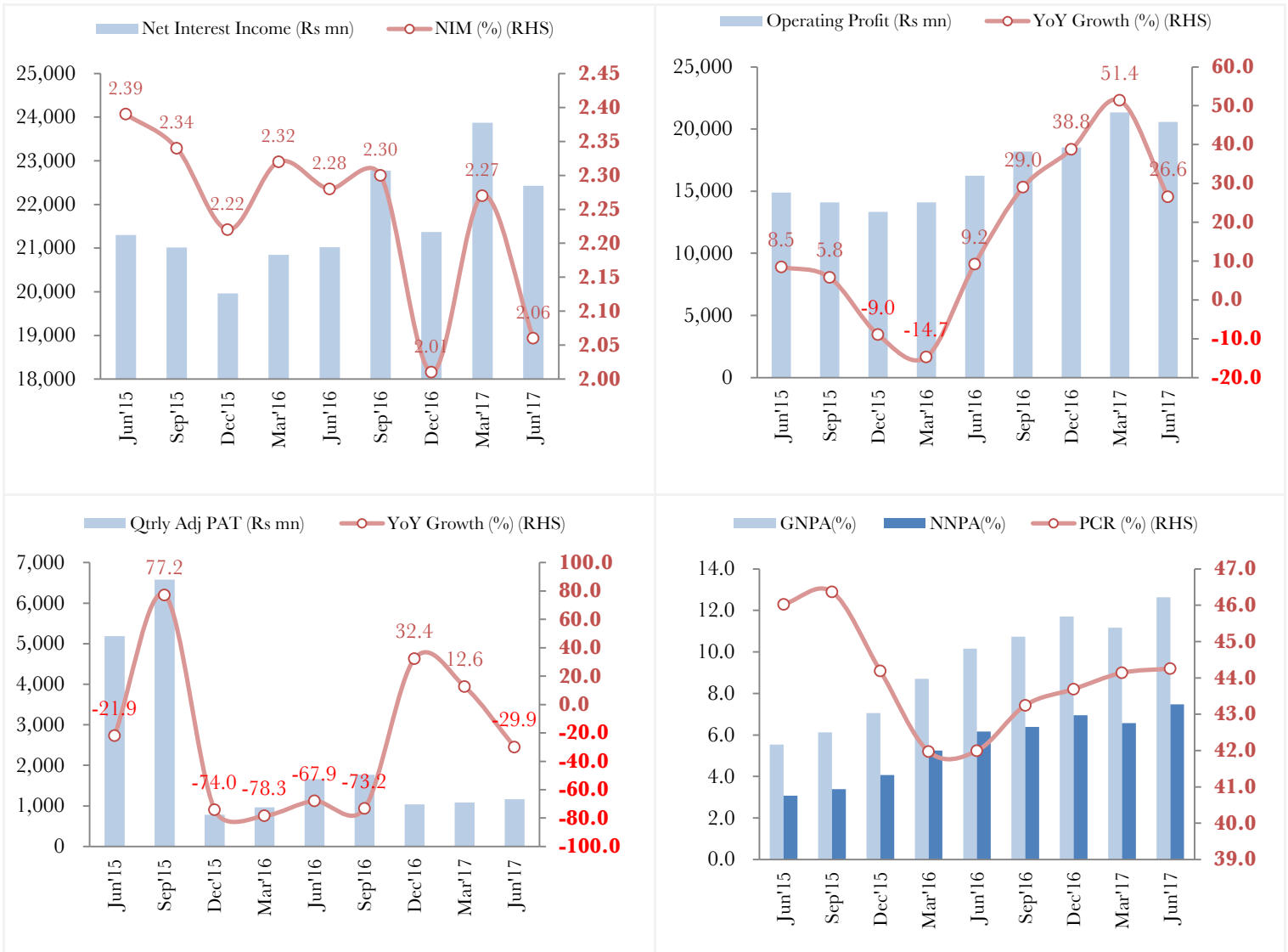
Commentary and Outlook

- Slippages, post moderating for the last 3 quarters, jumped 50% QoQ to Rs 44.5 bn. Slippages were higher QoQ across Agri (Rs 6.96 bn), MSME (Rs 5.9 bn) and Corporate (Rs 29.7 bn) barring retail. Corporate slippages mainly from telecom/electronic (Videocon), EPC, Food & beverages, power segment. Higher slippages coupled with muted reduction led to 11% rise in GNPA QoQ, while ratio up 146 bps QoQ to 12.63%.
- Further, bank has added a massive Rs 21 bn under SDR, Rs 3.7 bn under 5/25 scheme and Rs 10.5 bn under S4A.
- Deferred stressed assets (adjusted for overlap) stands bulky at Rs 114 bn (~4.1% of loans) across RSA (Rs 38.6 bn), SDR (Rs 42.3 bn), S4A (Rs 19.4 bn) and 5/25 (Rs 32.75 bn). Despite huge slippages, SMA 2 book stands at Rs 152 bn or 5.5% vs Rs 164 bn (5.7% QoQ). Bank runs Rs 24.6 bn shortfall on Rs 74.2 bn exposure to NCLT cases.
- Bank guides for 4% slippages, over 2% credit cost and GNPA at around 13% with muted RoA for FY18.
- The longevity of the tenure of new MD&CEO is a differentiating factor but bank will continue to face several headwinds in near-to-medium term. We believe growth as well margin will remain under pressure while credit cost will remain elevated given huge recognized / deferred stress. Risk return still appears unattractive with stock trading at 1.1x FY19 ABV with RoA of 0.2% and relatively low CET 1. Maintain Underperformer.

Financial Highlights

(Rs mn)	1QFY17	1QFY18	YoY (%)	4QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Interest Earned	78,766	81,530	3.5	83,255	-2.1	321,988	326,600	323,584	324,435
Interest Expended	57,744	59,104	2.4	59,384	-0.5	238,857	237,566	229,839	225,863
NII	21,023	22,426	6.7	23,870	-6.1	83,131	89,033	93,746	98,572
Other Income	10,399	14,147	36.0	14,456	-2.1	36,317	49,646	53,365	56,201
Total Income	89,165	95,677	7.3	97,711	-2.1	358,305	376,246	376,949	380,636
Total Net Inc	31,421	36,573	16.4	38,326	-4.6	119,448	138,679	147,111	154,773
Staff Expenses	8,590	8,213	-4.4	8,362	-1.8	36,993	34,342	37,486	42,830
Other Op Exp	6,581	7,794	18.4	8,623	-9.6	25,337	29,367	33,372	37,952
Operating Profit	16,251	20,566	26.6	21,341	-3.6	56,426	74,301	75,515	73,181
Provisions	13,530	17,037	25.9	24,441	-30.3	38,772	70,875	65,554	55,966
Provision for Tax	1,058	2,363	123.4	-4,183	n/a	4,138	-2,126	2,988	5,165
Adjusted Profit	1,663	1,166	-29.9	1,082	7.7	13,516	5,552	6,973	12,051

Jai Mundhra, Anand Dama



Key Ratios & Trends

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Loans Rs mn	2,480,802	2,462,170	2,537,054	2,673,540	2,568,611	2,652,051	2,626,590	2,864,666	2,783,876
Loans-growth (YoY)	6.0	3.3	6.5	4.6	3.5	7.7	3.5	7.1	8.4
Loans-growth (QoQ)	-3.0	-0.8	3.0	5.4	-3.9	3.2	-1.0	9.1	-2.8
CASA %	28.3	28.6	30.6	32.3	31.5	31.5	36.8	34.4	35.5
CAR (%)	10.1	10.3	10.3	10.6	10.8	11.2	11.4	11.8	12.0
Tier I (%)	7.5	7.7	7.7	8.1	8.4	8.6	8.5	9.0	9.2
Branches	4,082	4,095	4,131	4,196	4,199	4,210	4,233	4,282	4,282
Slippages (Rs mn)	15,080	19,310	34,090	61,700	36,030	33,960	32,940	29,510	44,530
Slippages %	2.6	3.2	5.7	9.7	5.8	5.5	5.2	4.4	6.9
Restructured std (O/s;% of loans)	5.7	5.7	5.4	3.2	2.8	2.1	2.1	2.0	1.4
Gross SDR (O/s;% of loans)			1.1	0.7	1.2	1.8	2.0	2.6	1.5
Gross 5/25 (O/s;% of loans)	2.5	2.9	3.3	0.9	1.7	1.5	1.4	1.6	1.2
Global NIM %	2.39	2.34	2.22	2.32	2.28	2.30	2.01	2.27	2.06
ROE Decomposition %									
NII	2.2	2.1	2.0	2.1	2.1	2.2	1.9	2.1	2.0
Other Income	0.6	0.7	0.6	0.8	0.7	0.6	0.6	0.8	0.7
Opex	1.5	1.7	1.6	1.7	1.5	1.5	1.5	1.5	1.4
PPOP	1.5	1.4	1.4	1.4	1.6	1.7	1.7	1.9	1.8
Provisioning Cost	0.7	0.4	1.3	1.6	1.3	1.6	1.5	2.2	1.5
PBT	0.9	1.0	0.1	-0.2	0.3	0.2	0.2	-0.3	0.3
ROA	0.5	0.7	0.1	0.1	0.2	0.2	0.1	0.1	0.1
ROE	10.4	12.5	1.4	1.7	2.9	3.0	1.8	1.8	2.0

Union Bank of India

Income Statement

					Key ratios				
Year ended 31 Mar (Rs m)	Mar-16	Mar-17	Mar-18E	Mar-19E	Year ended 31 Mar (Rs m)	Mar-16	Mar-17	Mar-18E	Mar-19E
Interest income	321,988	326,600	323,584	324,435	Valuation ratios				
Interest expense	238,857	237,566	229,839	225,863	Adjusted EPS (Rs)	20.4	8.1	9.9	16.6
Net interest income	83,131	89,033	93,746	98,572	BVPS (Rs)	295.4	305.2	303.8	317.5
<i>growth (%)</i>	<i>(1.5)</i>	<i>7.1</i>	<i>5.3</i>	<i>5.1</i>	Adjusted Book NAV/share (Rs)	160.8	124.4	96.5	119.6
Non-interest income	36,317	49,646	53,365	56,201	PER (x)	6.6	16.6	13.6	8.1
Operating income	119,448	138,679	147,111	154,773	Price/Book (x)	0.5	0.4	0.4	0.4
Operating expenses	63,022	64,378	71,595	81,592	Price/Adjusted book (x)	0.8	1.1	1.4	1.1
- Staff expenses	36,993	34,342	37,486	42,830	Dividend Yield (%)	1.5	n/a	1.1	1.8
Pre-provisions profit	56,426	74,301	75,515	73,181	Du-Pont ratios				
Core operating profit	47,263	53,714	58,697	56,363	NII/Avg. Assets (%)	2.1	2.1	2.0	2.0
<i>growth (%)</i>	<i>(7.6)</i>	<i>13.7</i>	<i>9.3</i>	<i>(4.0)</i>	Non-interest income/Avg Assets	0.9	1.2	1.1	1.1
Provisions & Contingencies	38,772	70,875	65,554	55,966	- Fee income / Avg Assets	0.7	0.7	0.8	0.8
Pre-tax profit (before non-recur	17,654	3,426	9,961	17,215	- Trading gains / Avg Assets	0.2	0.5	0.4	0.3
Non-recurring items	0	0	0	0	Cost / Avg Assets	1.6	1.5	1.5	1.6
Tax on non-recurring items	0	0	0	0	Non-tax Provisions / Avg Assets	1.0	1.7	1.4	1.1
Pre-tax profit (after non-recurri	17,654	3,426	9,961	17,215	Tax Provisions / Avg Assets	0.1	(0.0)	0.1	0.1
Tax (current + deferred)	4,138	(2,126)	2,988	5,165	ROA (%)	0.3	0.1	0.1	0.2
Net profit	13,516	5,552	6,973	12,051	Leverage	20.3	20.8	21.6	22.1
Adjusted net profit	13,516	5,552	6,973	12,051	ROE (%)	7.0	2.7	3.2	5.3
<i>growth (%)</i>	<i>(24.1)</i>	<i>(58.9)</i>	<i>25.6</i>	<i>72.8</i>	Balance Sheet ratios				
Minority interests	0	0	0	0	Loan growth (%)	4.6	7.1	5.5	9.9
Net income	13,516	5,552	6,973	12,051	Deposit growth (%)	8.2	10.4	6.9	8.7

Balance Sheet

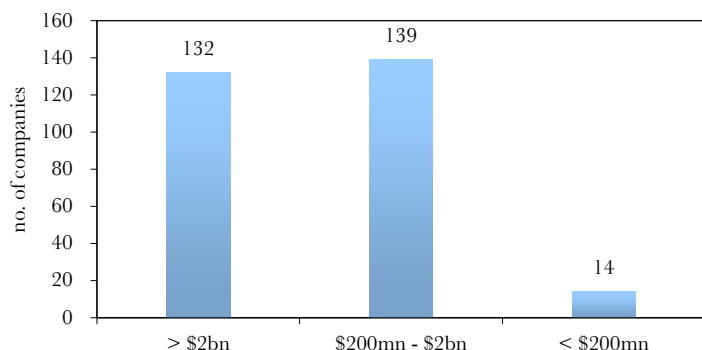
Year ended 31 Mar (Rs m)	Mar-16	Mar-17	Mar-18E	Mar-19E					
Cash and balance with RBI/Banks	292,762	328,225	334,688	350,257	Profitability ratios				
Investments	892,083	1,121,490	1,164,502	1,230,982	NIMs (%)	2.3	2.3	2.2	2.2
Advances	2,673,540	2,864,666	3,021,953	3,319,928	Interest spread (%)	2.3	2.3	2.4	2.4
Interest earning assets	3,858,386	4,314,380	4,521,144	4,901,167	Yield on advances (%)	9.4	8.8	8.3	7.6
Fixed assets (Net block)	39,399	38,944	42,558	44,473	Cost of deposits (%)	6.7	6.1	5.2	4.8
Other assets	149,175	173,720	220,947	232,256	Efficiency/other P/L ratios				
Total assets	4,046,959	4,527,044	4,784,649	5,177,896	Non-interest income/Net income (%)	30.4	35.8	36.3	36.3
Deposits	3,427,200	3,783,916	4,046,253	4,396,499	Trading income/Net income (%)	7.7	14.8	11.4	10.9
Other interest bearing liabilities	309,574	412,259	416,259	434,627	Cost/Income (%)	52.8	46.4	48.7	52.7
Total Interest bearing liabilities	3,818,047	4,292,692	4,539,225	4,922,515	Asset quality ratios				
Other liabilities and provisions	81,273	96,518	76,713	91,389	Gross NPLs (%)	8.7	11.2	13.4	12.5
Share capital	6,874	6,874	7,269	7,269	Net NPLs (%)	5.2	6.6	7.6	6.6
Reserves & surplus	222,038	227,478	238,155	248,112	Net NPLs/Net worth (%)	64.3	81.9	94.4	86.1
Less: Misc. expenditure	0	0	0	0	Loan provisions/Avg loans (%)	1.5	2.3	2.1	1.6
Shareholders' funds	228,912	234,352	245,424	255,381	Provisions cover (%)	42.0	44.1	47.0	51.0
Minorities interests	0	0	0	0	Capitalisation ratios				
Total equity & liabilities	4,046,959	4,527,044	4,784,649	5,177,896	Tier I cap.adequacy (%)	8.1	9.0	9.0	8.8
					Total cap.adequacy (%)	10.6	11.8	11.8	11.6

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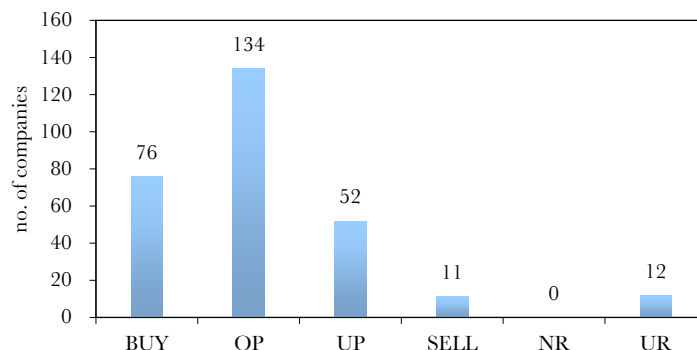
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By Market Cap (US\$ mn)



By Recommendation



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UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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