

Union Bank of India (UNIBAN)

Rs. 255

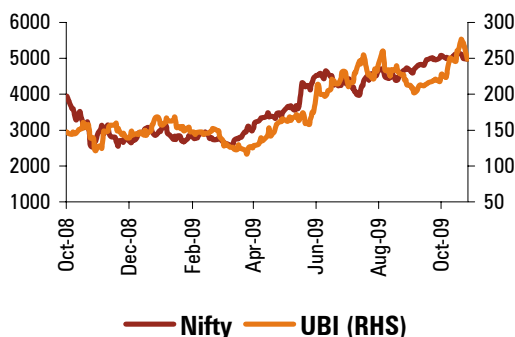
Rating matrix	
Rating	: Hold
Target	: Rs. 250
Target Period	: 12 months
Potential Upside	: -3 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
NII	3086.4	3813.6	4227.5	5187.3
PPP	2580.3	3082.6	3592.8	4373.4
PAT	1387.0	1727.6	1886.0	2308.1

Valuation summary				
	FY08	FY09	FY10E	FY11E
EPS (Rs)	27.5	34.2	37.3	45.7
P/E (x)	6.9	8.0	7.3	6.0
Price / Adj Book (x)	2.0	1.6	1.4	1.2
GNPA (%)	2.2	2.0	2.2	2.2
NNPA (%)	0.2	0.3	0.6	0.6
RoNA (%)	1.2	1.2	1.1	1.1
RoE (%)	22.1	21.4	19.7	20.4

Stock data	
Market Capitalisation	Rs 12827 crore
GNPA (Q2FY10)	Rs 1919 crore
NNPA (Q2FY10)	Rs 223 crore
Net-worth (Q2FY10)	Rs 7878 crore
52 week H/L	281/113
Equity capital	Rs 505 Crore
Face value	Rs 10
MF Holding (%)	8.8
RI Holding (%)	17.4

Price movement



Analyst's name

Kajal Jain
kajal.jain@icicisecurities.com

Chirag Shah
shah.chirag@icicisecurities.com

Viraj Gandhi
viraj.gandhi@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY10E)	Unchanged
EPS (FY11E)	Unchanged
RATING.....	HOLD

Weak credit growth mars core operations ...

On the core operations front Union bank of India (UBI) disappointed in its Q2FY10 results with advances and deposits growing 14.8% YoY and 28% YoY respectively. Weak credit growth led to net interest income by 11.5% YoY. Net interest margins have shown an up tick of 7 bps QoQ on the back of accretion in CASA deposits. PAT growth of 40% YoY was mainly supported by a robust growth in the treasury income. Asset quality continues to be robust with provision cover of 88.4% in Q2FY10.

Core operations weak, to look up from H2FY10 onwards

Weak credit growth coupled with more than expected deposit growth spoiled the show for UBI in Q2FY10. As a result of the same UBI reported an 11.5% YoY decline in net interest income. Advances and deposits grew by 14.5% YoY and 28% YoY, much, lower than expectations. Increase in CASA deposits and stable NIM's at 2.3% are the positive highlights for Q2FY10.

Fee income and treasury gains drive Q2FY10 profitability

40 % YoY PAT growth was mainly contributed by growth in the treasury income in Q2FY10. Also the core fee income exhibited a robust 39% YoY growth, mainly lead by corporate banking and transaction banking segment.

Asset quality reasonable

GNPA and NNPA for Q2FY10 stood at 1.93% and 0.23% with a robust coverage ratio of 88%. From hereon we do not expect the asset quality to deteriorate drastically, even though we are conservative and built in higher delinquencies.

Valuation

We expect UBI to trend back to its core business growth from H2FY10 onwards, but we have slightly revised our estimates downwards for business growth for FY10E. This we believe will put a cap on the P/ABV multiple in the medium term. We therefore maintain our target price of Rs 249 and rate the stock as "Hold"

Exhibit 1: Performance Highlights

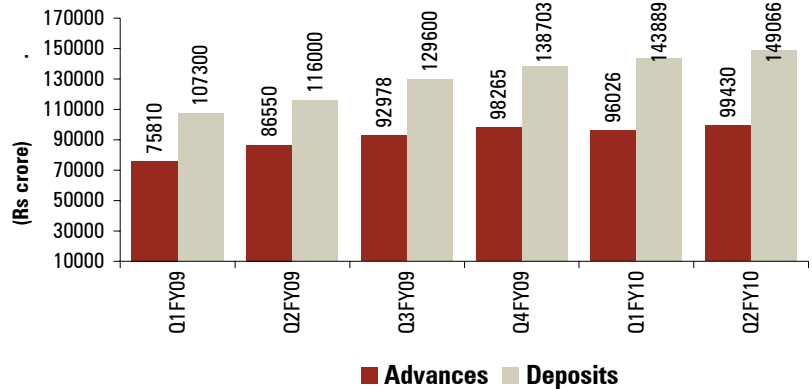
Rs Crore	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	863.4	972.6	975.3	801.0	-11.5	7.8
Other Income	555.3	420.0	283.3	529.0	96.0	5.0
Total Income	1418.7	1392.6	1258.6	1330.0	12.7	6.7
PPP	810.1	844.5	699.7	787.0	15.8	2.9
PAT	505.1	439.1	361.5	442.2	39.7	14.2

Source: Company, ICICIdirect.com Research

Business Highlights

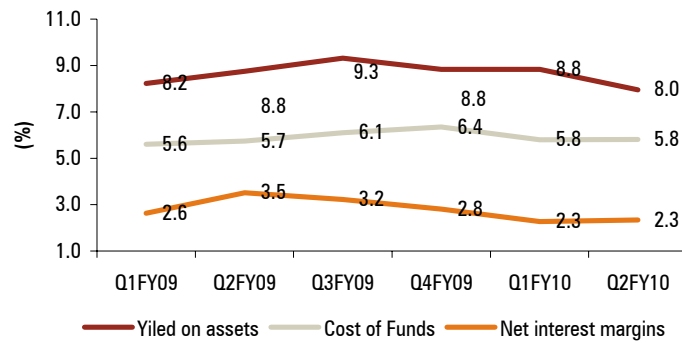
Going forward we have pruned down our credit growth estimates for FY10 from 20% to 18%. We expect the NIM's to be in the range of 2.6% for FY10

Exhibit 2: Business growth muted, to pick up from H2FY10 onwards



Source: Company, ICICIdirect.com Research

Exhibit 3: NIM's to improve from Q3FY10 onwards, for now its stable.

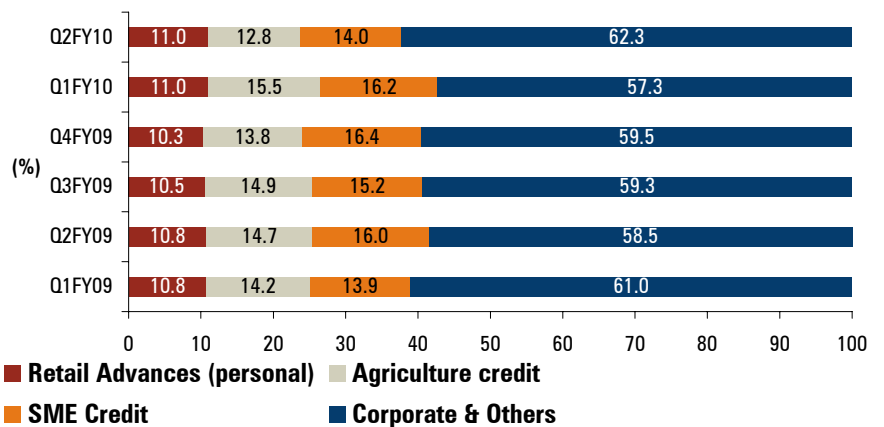


Source: Company, ICICIdirect.com Research

Loan mix of the bank is now more tilted toward the corporate segment. The bank as Q2FY10 has outstanding sanctions of Rs 26000 crores most of which is from the corporate side.

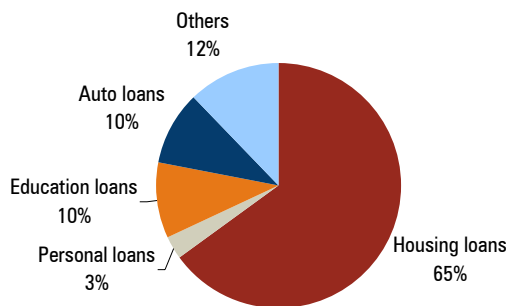
Share of retail advances has remained the same on QoQ basis as there is robust demand for housing and auto loans.

Exhibit 4: Exposure to corporate segment has increased YoY and QoQ



Source: Company, ICICIdirect.com Research

Exhibit 5: Break up of Retail Advances, share of personal loans have come down QoQ



Source: Company, ICICIdirect.com Research

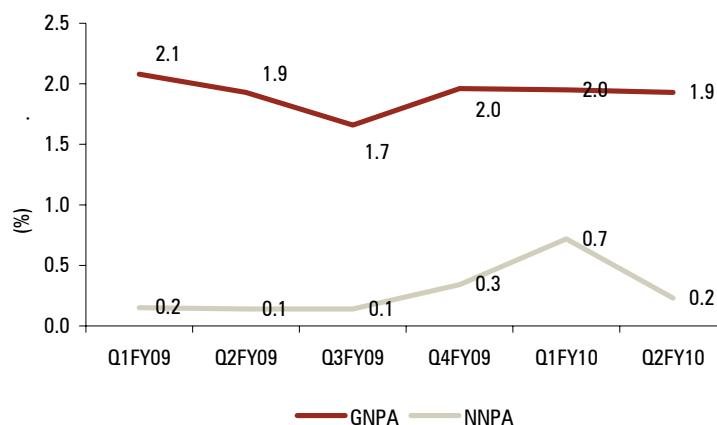
Exhibit 6: Break up of Non interest income

Composition of Non interest income	Q2FY10	Q2FY09	YoY growth
Treasury Profits	218	-36	-
Recovery	42	64	52%
Forex Income	78	101	29%
CEB	217	156	-28%
Total	555	285	-49%

Source: Company, ICICIdirect.com Research

In lieu of better trading gains we have revised our estimates for the non interest income segment. We expect the non interest income to grow at a CAGR of 16% over FY09-FY11E

Exhibit 7: Asset quality reasonable



Source: Company, ICICIdirect.com Research

GNPA and NNPA have come down QoQ from 1.95% and 0.72% to 1.93% and 0.23% respectively. The bank has adequately provided for the bad assets as the provision coverage for Q2FY10 stood at 88.3%. We expect the GNPA's to peak by FY10E and estimate the same to be at 2.2% levels.

ICICIdirect.com Coverage Universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	417	FY09	3007.3	57.2	7.3	2.0	1.5	25.0
		Target	350	FY10E	3586.2	68.2	6.1	1.6	1.4	23.9
Mcap (Rs Cr)	22146	Upside (%)	-16	FY11E	4532.0	86.2	4.8	1.4	1.5	25.9
Bank of Baroda										
Idirect Code	BANBAR	CMP	482	FY09	2227.2	61.1	7.9	1.5	1.1	18.7
		Target	532	FY10E	2582.0	70.6	6.9	1.2	1.1	18.4
Mcap (Rs Cr)	18047	Upside (%)	10	FY11E	3117.6	85.3	5.7	1.1	1.1	18.7
Dena Bank										
Idirect Code	DENBAN	CMP	64	FY09	422.6	14.7	4.4	1.0	1.0	21.3
		Target	86	FY10E	488.9	12.6	5.1	0.9	0.9	18.8
Mcap (Rs Cr)	1886	Upside (%)	34	FY11E	572.7	14.8	4.4	0.8	0.9	17.7
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	117	FY09	1325.8	24.3	4.8	1.0	1.2	22.1
		Target	144	FY10E	1292.7*	23.7	5.0	1.1	1.0	17.6
Mcap (Rs Cr)	6374	Upside (%)	23	FY11E	1887.9	34.7	3.4	0.8	1.2	22.3
IDBI Bank										
Idirect Code	IDBI	CMP	121	FY09	858.5	7.8	15.8	1.4	0.6	12.1
		Target	116	FY10E	925.8	12.8	9.6	1.3	0.5	11.8
Mcap (Rs Cr)	8773	Upside (%)	-13	FY11E	1132.4	14.2	8.6	1.3	0.5	12.7
OBC										
Idirect Code	ORIBAN	CMP	248	FY09	7.7	6.9	0.9	0.6	0.0	0.0
		Target	255	FY10E	13.1	6.1	0.8	0.8	0.0	0.0
Mcap (Rs Cr)	6239	Upside (%)	-13	FY11E	12.4	5.4	0.8	1.3	0.0	0.0
Punjab National Bank										
Idirect Code	PUNBAN	CMP	834	FY09	3091.3	98.0	8.5	1.8	1.4	22.9
		Target	UR	FY10E	3260.7	103.4	8.0	1.6	1.2	20.4
Mcap (Rs Cr)	26265	Upside (%)		FY11E	4139.5	131.3	6.3	1.5	1.3	22.8
SBI										
Idirect Code	STABAN	CMP	2200	FY09	91.2	143.7	15.3	2.7	1.1	17.1
		Target	2217	FY10E	99.4	156.5	14.1	2.5	1.0	16.2
Mcap (Rs Cr)	142012	Upside (%)	1	FY11E	100.0	195.0	11.3	2.1	1.0	17.5
Union Bank of India										
Idirect Code	UNIBAN	CMP	257	FY09	1727.6	34.2	8.0	1.6	1.2	21.4
		Target	250	FY10E	1886.0	37.3	7.3	1.4	1.1	19.7
Mcap (Rs Cr)	13311	Upside (%)	-3	FY11E	2308.1	45.7	6.0	1.2	1.1	20.4
Axis Bank										
Idirect Code	UTIBAN	CMP	955	FY09	1815.5	50.6	18.9	3.5	1.4	19.1
		Target	1100	FY10E	2166.2	53.0	18.0	2.5	1.3	16.2
Mcap (Rs Cr)	34827	Upside (%)	15	FY11E	2572.2	62.9	15.2	2.2	1.2	14.7
HDFC Bank										
Idirect Code	HDFBAN	CMP	1675	FY09	2244.9	52.8	31.7	5.1	1.4	17.2
		Target	1881	FY10E	2843.5	63.0	26.6	3.7	1.4	15.9
Mcap (Rs Cr)	71392	Upside (%)	12	FY11E	3901.0	86.4	19.4	3.4	1.6	17.6
Kotak Bank										
Idirect Code	KOTMAH	CMP	775	FY09	275.8	8.0	98.4	7.6	1.0	7.5
		Target	584	FY10E	351.2	10.2	77.3	7.0	1.2	8.8
Mcap (Rs Cr)	27564	Upside (%)	-25	FY11E	497.5	14.4	54.5	6.8	1.5	11.8
Yes Bank										
Idirect Code	YESBAN	CMP	235	FY09	303.8	10.3	22.9	4.4	1.6	20.7
		Target	245	FY10E	421.3	14.2	16.5	3.5	1.6	23.0
Mcap (Rs Cr)	7132	Upside (%)	4	FY11E	617.7	19.6	12.0	2.4	1.9	23.7

Continued...

IDFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDFC	CMP	159	FY09	748.0	5.8	26.3	3.2	2.5	12.7
		Target	175	FY10E	952.0	7.3	20.7	2.9	2.9	14.6
Mcap (Rs Cr)	20549	Upside (%)	10	FY11E	1103.9	8.5	17.8	2.6	2.9	15.2
LICHF					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	LICHF	CMP	807	FY09	532.4	62.6	12.9	3.0	2.0	25.3
		Target	710	FY10E	608.9	63.4	12.8	2.5	1.8	21.8
Mcap (Rs Cr)	6897	Upside (%)	-12	FY11E	719.4	74.9	10.8	2.1	1.8	20.5
MOSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	157	FY09	93.4	6.6	23.9	2.8	8.3	11.8
		Target	184	FY10E	153.6	10.8	14.5	2.5	8.4	17.1
Mcap (Rs Cr)	2338	Upside (%)	17	FY11E	191.0	13.4	11.7	2.1	8.9	17.8
Rel Cap					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	RELCAP	CMP	795	FY08	1334.7	54.2	14.7	2.5	7.7	18.6
		Target	800	FY09	1151.4	46.8	17.0	2.3	5.8	14.0
Mcap (Rs Cr)	19665	Upside (%)	1	FY10E	1073.5	43.6	18.2	2.0	4.6	11.6

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

Underperformer: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor , Akruiti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 020
 research@icicidirect.com**

ANALYST CERTIFICATION

We */I, Kajal Jain CA Chirag Shah PGDBM Viraj Gandhi MBA-CM* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Kajal Jain CA Chirag Shah PGDBM Viraj Gandhi MBA-CM* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Kajal Jain CA Chirag Shah PGDBM Viraj Gandhi MBA-CM* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.