

**Union Bank of India
Techno Funda
Stock Outlook**

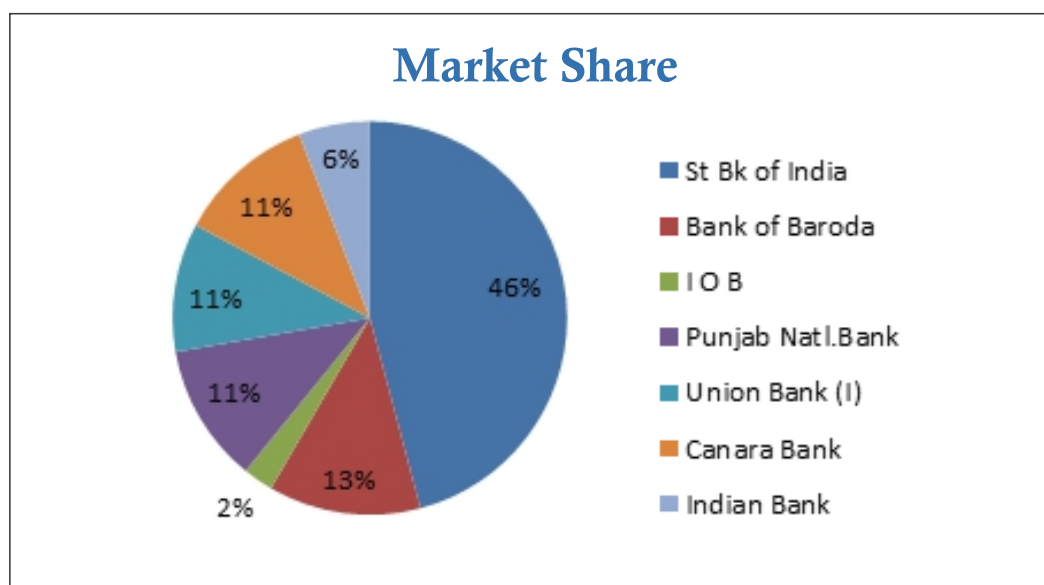


Indbank
Merchant Banking Services Ltd
(A Subsidiary of Indian Bank)

STOCK DETAILS	
NSE Scrip code	UNIONBANK
BSE Scrip code	532477
Market cap (in Cr)	74,865.7
52-week High/Low (in Rs)	113 / 44.15
Price Target (in Rs)	Rs 160

COMPANY OVERVIEW

Union Bank of India is India's 5th largest Public Sector Bank with a market share of nearly 11% among PSBs in banking business. It is engaged in the business of banking services, Government business, Merchant Banking, Agency business insurance, mutual funds, wealth management etc. Andhra Bank and Corporation Bank were merged with the Union Bank of India w.e.f 1 April 2020. The total business of the bank nearly doubled post the merger with these two banks.



INDUSTRY OVERVIEW

2023 by far has been a year of continued improvement in economic activity in India, despite significant challenges across the globe. The key infrastructure ministries such as road transport, railways and defence shall substantially drive capital expenditure in the upcoming year. This provides ample scope for the banking and financial sector for expanding their lending activities.

FINANCIAL YEAR 2022-23

- Net profit increased at a robust 61.7% yoy
- Capital adequacy ratio increased from 14.52 to 16.04
- ROE from 10.11% to 13.26%
- GNPA reduced by 23.37 %, while NNPA reduced 46.80 %
- Total deposits grew by 8.26% YoY
- Growth of 14.20% in agricultural lending, 13.06% in our total MSME advances

ANNUAL (in Rs Cr.)

	Mar-22	Mar-23	Y-O-Y
Sales	68,229.66	81,163.18	19.0%
Expenses	32,264.44	36,154.58	12.1%
Operating Profit	35,965.22	45,008.60	25.1%
Other Income	13,524.41	15,915.35	17.7%
Depreciation	744.81	744.57	0.0%
Interest	40,178.47	48,032.84	19.5%
Profit before tax	8,566.35	12,146.54	41.8%
Tax	3,357.84	3,716.20	10.7%
Net profit	5,265.32	8,511.66	61.7%
EPS	7.70	12.45	61.7%
OPM	53%	55%	

QUARTERLY HIGHLIGHTS

- NIMs improved to 3.13% in Q1FY24 from 3% in Q1FY23
- The Retail, agriculture or MSME portfolios have grown over and above 12%
- Total deposits of the bank have registered a Y-o-Y growth of 13.6% and credit cost of the bank has come down to 0.97 %
- Although cost of deposits has gone up, it has basically led to the improvement in margin
- Net profit has gone up by 107.70% y-o-y
- Substantial improvement in yield on advances to 8.43% in Q1FY24 from 7.14% in Q1FY23

OUTLOOK

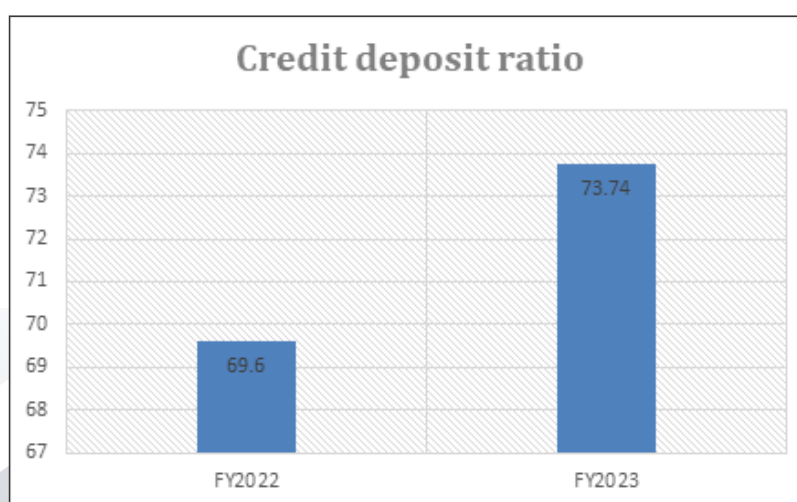
The Union Bank is one of the consolidating banks having absorbed the Andhra and Corporation Banks into its wing in 2020. Therefore, it is expected to benefit from achieving a wider network of branches spanning each and every state of India. The digital mode of banking has been increasingly becoming the preferred

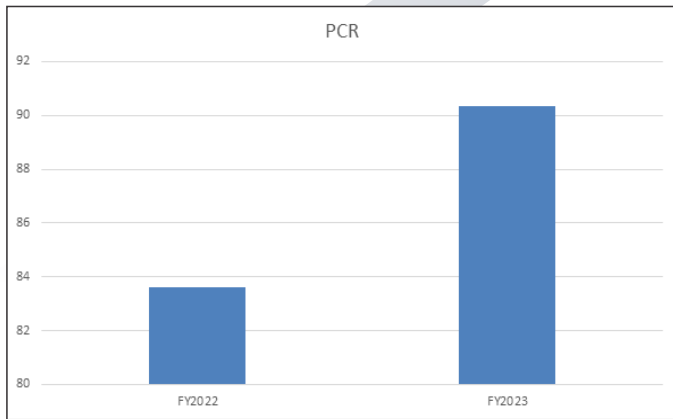
mode of transactions and Union Bank's rapidly expanding digital ecosystem will go a long way in catering to the digital requirements of a wide range of customers. Over the last few quarters, there has been 65% growth in digital FD creation, which is resulting in customer convenience as well as saving the bank's expenses and manpower. For the next quarter, the management expects net interest margins to be maintained at around a conservative 3% mark, drop from the current 3.13% owing to uncertainty regarding rate hikes and liquidity condition going ahead. As for credit growth, a guidance of around 12% is expected in the upcoming quarter. The GNPA and NNPA are expected to improve from 7.53% and 1.70% to 6% and 1% respectively over the financial year. The banking sector performance remains strong owing to growing economic activities. This will result in pick-up in the credit growth.

FINANCIAL RATIOS

	FY22	FY23
RoA %	0.44%	0.66%
ROE %	7.97%	11.72%
ROCE %	5.37%	5.93%
EV/net sales	15.6	14.3
D/E	0.8	0.6
Net Profit Margin%	7.63%	10.38%
Current ratio	22.38	20.13
Capital adequacy	14.52	16.04
Credit Deposit Ratio	69.6	73.74
CASA	36.54	35.26
Net Interest margin	2.9	2.71

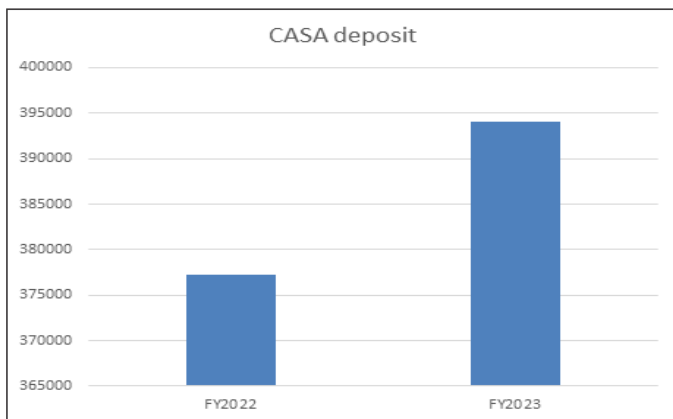
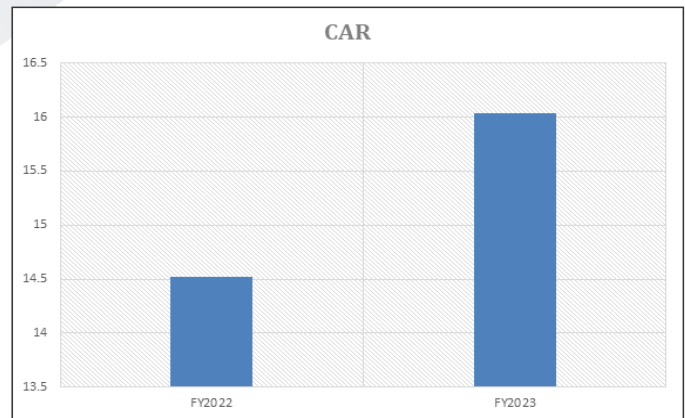
The bank has a credit deposit ratio of above 65 indicating a healthy operational efficiency.





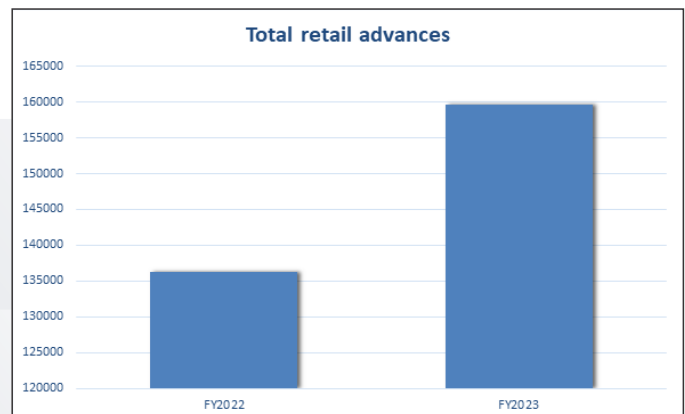
Provisional coverage ratio increased from 83.61% to 90.34% indicating a greater buffer for possible NPAs.

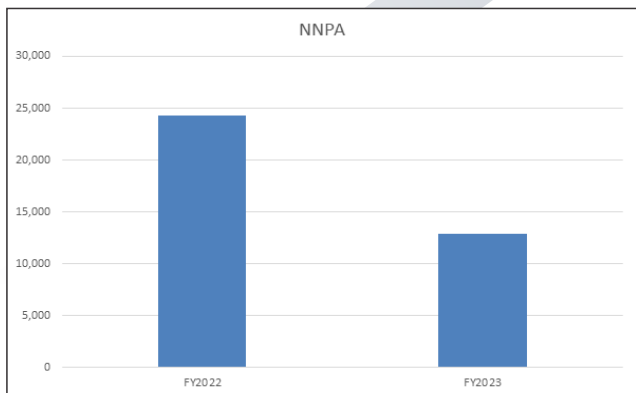
With a capital adequacy ratio of 16.04%, the bank stands well above the regulatory requirement of 11.5%.



An increase in CASA by 4.47% speaks of the bank's ability to maintain a stable and low-cost deposit base.

Total retail advances reached Rs 1,59,702 crores registering overall Y-o-Y growth of 17.19%. The retail advances portfolio has a lesser probability of turning into an NPA as compared to corporate advances.





The bank's net NPAs saw a steep reduction of 46.81% over the year. This demonstrates the management's commitment to maintaining high-quality assets and stringent risk management practices.

INVESTMENT RATIONALE

- Significant low-cost deposit base resulting in enhanced income.
- Steadily improving NIMs and cost to income ratios resulting in improved profitability.
- Pan-India network and international presence.
- Improving asset quality and adequate provisioning.
- Slippages expected to moderate.
- Traction in retail home loan, high value education loans and corporate portfolios to drive growth in the following year.
- Cost of deposits is expected to moderate over the next two quarters thereby boosting the revenue visibility.

TECHNO FUNDA OUTLOOK

Stock is trading below its book value, which indicates there is enough room for further upside. Technically stock can be seen consolidating in the range of 60-95 and giving breakout in the long term. Stock is also breaking out of bullish head and shoulder pattern with volume in weekly and monthly charts. The stock has potential move towards 158-160 from current levels of 90-95 over the medium-long term. We suggest medium to long term investor to accumulate the stock.



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