

Shubh Nivesh



CMP: ₹ 147

Target: ₹ 180 (22%) Target Period: 6-12 months

Mar 04, 2024

BUY

Continued healthy growth and steady RoA to drive valuation...

About the stock: Registered in 1919 and amalgamated with Andhra Bank and Corporation Bank in 2020, Union Bank of India is a public sector bank with diversified financial services to cater to customers across segment.

- Global business mix stands at ₹20.7 lakh crore; advance book at ₹9.96 lakh crore.
- Bank has large presence with employee base of ~76,300, pan India presence with 8,479 branches and 9,889 ATM

Investment Rationale:

- Business growth with focus on digital expansion:** Union Bank of India has delivered steady growth at 11.4% YoY in 9MFY24 with growth being secular from across segments. Going ahead, improved balance sheet, adequate capital adequacy and healthy liabilities franchise is seen to aid focus on business expansion with focus on enhancing digital capabilities. **Expect credit growth ~13% CAGR in FY24-26E.**
- Focus to keep margins steady; moderation in credit cost to aid RoA:** Despite increasing competitive intensity, the bank has been to deliver steady margins at ~3% in 9MFY24. Given healthy CASA at 34.4% of deposits, repricing of deposits largely over and recent capital raising, expect margins to remain steady at ~2.9-3% in FY24-26E. Moderation in slippages and healthy coverage at 92.5%, expect credit cost to remain benign thereby driving **gradual improvement in RoA at 1-1.1% in FY24-26E.**
- Healthy asset quality to aid balance sheet:** Asset quality has been on improving trend with GNPA declining from 7.9% in Q3FY23 to 4.8% in Q4FY24. Management expects moderation in slippages coupled with healthy recovery (expect ~₹4000 crore in Q4FY24) to result in further decline in NPA numbers.

Rating and Target Price

- Focus on persistent business growth with steady margins to aid operational performance, while modest credit cost is seen to push RoA at 1-1.1% in FY24-26E.
- Recovery from stressed pool and treasury gains could act as catalyst for earnings. With recent capital issuance, Gol stake has come below 75% (at ~74.8%), thus putting risk of dilution aside.
- At CMP, the stock is trading 0.9x FY26E ABV which seems reasonable with steady growth to drive valuation. Assigning a multiple of ~1.1x FY26E BV, we ascribe target of ₹ 180 per share and a **BUY** rating



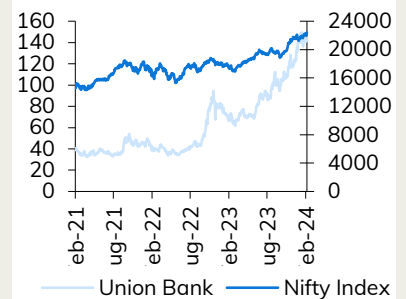
Particulars

Particulars	Amount
Market Capitalisation	112176 crore
52 week H/L	155/ 60.3
Net Worth	₹93465 crore
Face Value	10.00
DII Holding (%)	12.59
FII Holding (%)	6.00

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23	Feb-24
Promoter	83.5	83.5	77.0	77.0	74.8
FII	1.7	1.5	2.9	4.0	6.0
DII	8.3	7.9	12.7	12.3	12.6
Others	6.6	7.2	7.4	6.8	6.6

Price Chart



Recent Event & Key risks

- Healthy business growth with steady margins at ~3.1% in 9MFY24
- Key Risk:** (i) Accretion of liabilities at competitive price, (ii) Slower than recovery to impact other income

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Key Financial Summary

₹ crore	FY21	FY22	FY23	2 year CAGR (FY21-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26)
NII	24688.0	27787.0	32765.0	86.8%	36455.7	40938.0	46816.6	12.6%
PPP	19666.0	21874.0	25467.0	87.9%	29397.0	32670.9	37523.3	13.8%
PAT	2905.0	5232.9	8433.1	58.7%	14229.5	17808.1	20161.6	33.7%
BV	93.0	96.3	105.6		120.90	140.73	163.18	
P/E	32.4	19.2	11.9		7.9	6.3	5.6	
P/ABV	1.6	1.5	1.4		1.2	1.0	0.9	
RoA	0.3	0.5	0.7		1.0	1.1	1.1	
RoE	6.7	10.1	13.3		14.5	15.7	15.4	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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