



Buy Range ₹95 – 100

Target ₹120 – 125

Recommendation Buy

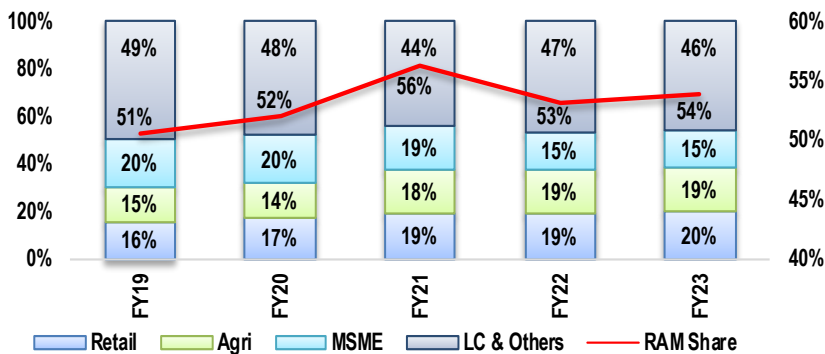
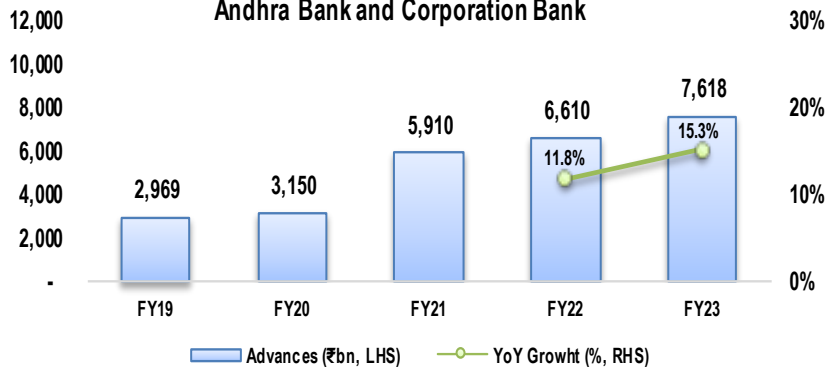
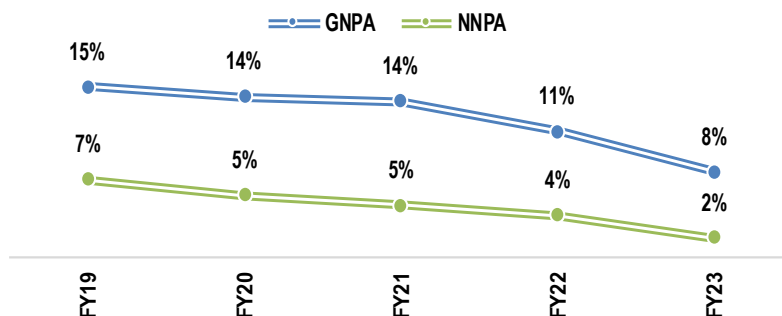
Highlights

- Union Bank of India Ltd. (UBI) became the fifth largest public sector bank post amalgamation with Andhra Bank and Corporation Bank w.e.f. April 01, 2020 and now commands ~10% market share in business serviced by the PSB basket.
- Operating through its wide spread distribution network of more than 8,500 branches in India, the bank boasts on its strong presence in the Rural (30%) and Semi-Urban (29%) parts of the country.
- Bank is focusing on aggressively expanding its retail portfolio and increase share of RAM segment. Thus it has undertaken several new initiatives of creating new verticals for Education and Gold loan, launch of Kisan Credit Card and other schemes for agricultural lending and setting up of dedicated branches for MSME financing.
- On the deposit front as well, UBI has stepped up its efforts to accelerate growth to fund robust credit uptick with focus on retail deposits. For this, the bank has launched various campaigns to open new CASA accounts, entered into tie-ups with government entities to increase salary account base and has identified 233 branches to handle bulk deposits.
- To bring down high GNPA levels observed post amalgamation, UBI management adopted prudent and proactive risk management approach and undertook several measures such as setting up of specialized cells for monitoring of large accounts and implementation of various digital platforms to monitor NPAs through efficient use of data management and analytical tools, automation of risk assessment processes.
- Consistent improvement in the yield on advances of the bank is largely an outcome of a prudent lending strategies adopted by the bank. On the cost of deposit front, as the LCR remains strong, there is sufficient liquidity at the bank's disposal, thus management does not foresee immediate need to increase bulk deposits. Additionally, focus on improving CASA ratio likely to keep cost of deposits under control.
- Keeping in view, expected liability repricing and gradual growth in deposits, NIMs can remain slightly under pressure. However, in anticipation of fall in interest rates and asset repricing underway for large part of the MCLR based loan book, the management is confident of maintaining 3% margin levels.
- In an attempt to promote digitally-enabled offerings, to provide bouquet of financial products/services and improve customer experience, UBI has developed its system capabilities to enable customers purchase third party products like Mutual Fund and Insurance, on the bank's website as well as mobile platforms.
- With successful conclusion of ₹50bn Qualified Institutional Placement, the bank's capital base stands strong and would support the credit growth with no requirement for further fund raising in near term.
- At CMP of ₹101, Union Bank of India is trading at 0.7x its FY25e P/Adj. BV multiple. We remain positive on the stock and arrive at target price of ₹125, implying 0.9x FY25e P/Adj. BV. Hence we recommend to BUY at the current valuation.

Union Bank of India Ltd.
Company Background

Union Bank of India Ltd. (UBI) became the fifth largest public sector bank post amalgamation with Andhra Bank and Corporation Bank and now commands ~10% market share in business serviced by the PSB basket. Operating through its wide spread distribution network of more than 8,500 branches in India, the bank boasts on its strong presence in the Rural (30%) and Semi-Urban (29%) parts of the country.

UBI was instrumental in undertaking various initiatives in order to consolidate the business of three banks and achieve the ultimate goal to get benefitted out of various synergies that would emerge from the amalgamation. Although these efforts were abated by the world-wide spread of COVID pandemic that hit businesses just few months post the effective date (1 April 2020), the bank continued on its path of transformation for couple of years and successfully completed the process of amalgamation to reap the benefits generated out of economies of scale. To set the stage for next leg of growth and improve resilience to match with the evolving external economic environment, UBI's management undertook second phase of new initiatives and announced strategic decisions to bring fundamental changes to the operating model.

UBI is focusing on aggressively expanding RAM portfolio

Surge in AUM during FY21 is due to amalgamation with Andhra Bank and Corporation Bank

Various steps undertaken by UBI to improve asset quality reflected in falling GNPA and NNPA levels


Source: Company, Way2Wealth Research

Important Data

Nifty	19,080
Sensex	63,875

Key Stock Data

CMP	₹101
Market Cap (₹ bn)	750.14
52W High/Low	₹113.35/51.2
Shares o/s (crs)	741.24
Daily Vol. (3M NSE Avg.)	18,14,443
BSE Code	532477
NSE Code	UNIONBANK
Bloomberg Code	UNBK:IN

Shareholding Pattern (%) – Sep'23

Promoter	76.99
FII	2.89
FII	12.69
Public & Others	7.43

Financials

Particulars	FY23	FY24E	FY25E
Net Int. Inc.	328	372	415
Net Int. Mar.	3.1%	3.2%	3.3%
Operating Expenses	219	229	255
Core Profit	255	297	321
Provisions	133	79	86
PBT	121	217	236
Tax	37	76	79
PAT	84	141	157
EPS	12.5	19.1	21.1
ABV	99.5	117.7	138.2
P/E	8.1	5.3	4.8
P/Adj BV	1.0	0.9	0.7

Source: Company Data, Way2Wealth

Relative Performance

Return (%)	1Yr	3Yr	5Yr
UBI	87.8	313.1	33.6
Nifty 50	5.9	63.9	83.7
Sensex	5.2	61.2	85.5

Source: Company, Way2Wealth

Prasad Hase

prasadhase@way2wealth.com

91-22-4019 2908

INVESTMENT RATIONALE
1. Amalgamation with Andhra Bank and Corporation Bank
Specialized Structure

- (i) Union Bank of India amalgamated with Corporation Bank and Andhra Bank w.e.f. April 01, 2020. This process enabled UBI to exhibit deeper geographic penetration across the country.
- (ii) The process of consolidation of three PSU banks, having similar business model and catering to the same set of customers, was challenging as it involved various inter-linked complexities. To complete this process and make the bank ready for future, UBI undertook 'Project Samarth' which focused on various initiatives.
- (iii) The bank identified more than 70 initiatives, in order to achieve cost and revenue synergies. One of the biggest challenge during the process was the integration of IT infrastructure. However, the bank was able to successfully implement it by AED (Amalgamation Effective Date), through well set roadmap and advance planning thus recording the fastest IT merger in the banking history.
- (iv) Post amalgamation, consolidated advances grew 93% YoY to ₹8,686bn while the deposits increased at the same rate to ₹6,661bn with a marginal contraction in the CASA ratio to 34.2%. Better yields and reduced cost of deposits led to ~30 bps of NIMs expansion for the consolidated entity to 2.6%. On the asset quality front, amalgamation led to a ~50 bps increase in GNPA to 14.7%, however, higher provisioning by UBI resulted in NNPA decline by ~30 bps to 5.2%.
- (v) Key motive behind the process of amalgamation was achieved through deeper penetration pan India as the branch network more than doubled to 9,587 while the employee strength rose to 77,237 from that of 37,317 for the standalone entity.

Centralised Processing Credit Centres

- Saral - MSME Credit
- ULPs - Retail Credit
- USKS - RAM Credit in Rural & Semi Urban Areas

Specialised Corporate Credit Branches

- Industrial Financial Branches
- Mid Corporate Branches

Other

- CAPS - Collection and Payment System
- SAM - Structured Asset Management
- ARB - Asset Recovery Branches

Impact of Amalgamation on UBI's standalone business

Pre and Post Amalgamation Scenario Analysis

(₹ bn)	Union Bank (Standalone)	Union Bank (Amalgamated)
Balance Sheet		
Total Deposit	4,507	8,686
Gross Advances	3,469	6,661
Total Business	7,976	15,347
CASA Ratio-Domestic(%)	35.6%	34.2%
Operating Parameters		
No Of Branches (Domestic)	4,281	9,587
No of ATMs	12,481	13,311
Total Staff	37,318	77,237
Ratios		
Yield on Advances (Global) (%)	7.8%	8.1%
Yield on Investments (Global) (%)	6.8%	6.7%
Cost of Deposits (Global) (%)	5.6%	5.4%
NIM (Global) (%)	2.3%	2.6%
Asset Quality		
Gross NPA (Rs. In Crores)	491	976
Gross NPA Ratio (%)	14.2%	14.7%
Net NPA (Rs. In Crores)	173	315
Net NPA Ratio (%)	5.5%	5.2%
Capital		
CET 1(%) (Regulatory - 7.375%)	9.4%	8.6%
Tier 1 (%) (Regulatory - 8.875%)	10.8%	9.7%
CRAR (%) (Regulatory -10.875%)	12.8%	12.0%

Source: Company, Way2Wealth Research

2. Fifth largest player in the PSB basket

- (i) UBI emerged as the fifth largest bank in the domestic PSB basket, post Govt. of India's decision to amalgamate 10 PSBs to form 4 banks, with aim to achieve improved operational efficiency by expanding branch network and customer base, to benefit out of economies of scale, and to fulfil the credit needs of a growing economy.
- (ii) Post AED, the bank took various innovative steps to attract new business such as listing retail loan products on psbloanin59minutes portal, launch campaigns to promote specific product segments and expand its tie-ups/partnerships with other financial institutions.
- (iii) **Retail:** Bank is focusing on aggressively expanding its retail portfolio and thus it has undertaken several new initiatives to cater to the diverse customer base.

Education Loan: Create distinct schemes to provide credit facility to students aspiring to study abroad and special loans for premier medical institutes. To facilitate such services, dedicated education loan officers have been assigned as single-point of contact. Additionally, a separate retail gold loan scheme has also been introduced for education loans.

Gold Loan: UBI is also taking up steps to accelerate the growth in its Gold portfolio, as witnessed by setting up of more than 1,000 Gold Loan Points during FY23 which serve as an exclusive delivery point of Gold Loans.

Insurance Premium Finance: To finance credit life premium, a special scheme 'Union Suraksha Personal loan' was launched.

Tie-ups to boost consumer loans: UBI has tied up with one of the largest domestic car manufacturer Maruti Suzuki Ltd. to integrate with the bank's lending automation system (LAS) for hassle-free loan processing.

Advances		
(₹ bn)	Q2FY24	% YoY Growth
State Bank of India	33,037	14%
Bank of Baroda	9,910	18%
Punjab National Bank	9,417	13%
Canara Bank	9,240	12%
Union Bank of India	8,472	10%
Bank of India	5,183	8%
Central Bank of India	2,310	17%
Bank of Maharashtra	1,831	24%

Data for SBI, BoB and BoI as on Q1FY24

Source: Company, Way2Wealth Research

(₹ bn)	FY20	FY21	FY22	FY23	% CAGR Growth
Home	624	665	719	797	8%
Miles	74	96	127	166	31%
Education	73	74	76	94	9%
Mortgage	118	119	126	143	7%
Personal	34	55	61	117	50%
Others	212	253	260	288	11%
Total Retail Advances	1,135	1,263	1,370	1,606	12%

Source: Company, Way2Wealth Research

- (iv) **Agriculture:** UBI maintains agricultural lending as its priority area and thus focuses on expanding the reach either through introduction of new products or deeper penetration of existing services.

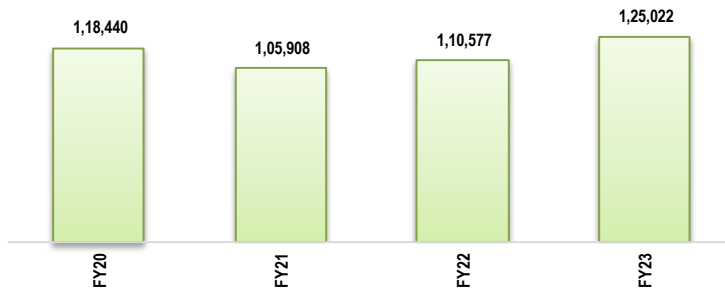
Credit Card: To better cater to the credit needs of farmers, the bank introduced Kisan Credit Card in association with RBI Innovation Hub. Additionally, the bank enabled auto renewal of credit cards in Karnataka and Madhya Pradesh and have on-boarded fin-tech companies in this regard. During FY23, 0.41 mn fresh credit cards were issued.

- (v) **MSME:** To tap in growing opportunity in the MSME sector as well as to support government's initiative on financial inclusion, UBI is dedicatedly undertaking various focused efforts:

Introduction of schemes: UBI's plans to enhance its service coverage through MSME focused schemes such as Union MSME Suvidha, Union Nari Shakti, Union Equipment Finance, Union Ayushman Plus, and Union Solar. Sanctioning under such schemes saw strong traction.

Branch Addition: In order to accelerate loan book growth in this segment, the bank set up 80 additional Union MSME First Branch (UMFBs) in FY23, raising the total to 105 branches, which cumulatively managed an MSME portfolio of ₹90bn.

MSME



- (vi) **Focus on Priority Sector Lending:** Various initiatives have been undertaken to boost priority sector lending such as setting up of Union Samridhi Kendra (USK) for processing and sanctioning of RAM proposals sent from RUSU Branches. . At present, there are 62 USKs across 52 regions & 16 FGMOs covering 1175 branches. During FY 2020-21, USKs have sanctioned approximately one lakh proposals to the tune of ~₹40bn during the present pandemic situation. In order to accelerate presence in Agricultural segment, focus in on implementing Pradhan Mantri Fasal Beema Yojana (PMFBY) to support farmers facing challenges due to climatic adversities.

Priority Sector Lending: In FY23, UBI surpassed the statutory priority target of 18% for Agriculture segment as the contribution stood at 18.97% while under Small and Marginal Farmer segment, the bank sold a surplus of ₹154.5bn.

Particulars (Including RIDF) (₹ bn)	FY22	FY23	% YoY Chng	% of Adj. Net Bank Credit (ANBC)	Benchmark FY22-23 (as % of ANBC)
Priority Sector Credit (After Deducting PSLC-Sold)	2,723	3,020	11%	42.3%	40%
Agriculture Priority Sector (After Deducting PSLC-Sold)	1,273	1,354	6%	19.0%	18%
Small & Marginal Farmers (After Deducting PSLC Sold)	882	952	8%	13.3%	10%
Credit to Weaker section (After Deducting PSLC Sold)	1,047	1,186	13%	16.6%	12%

Source: Company, Way2Wealth Research

3. Stable CASA ratio; Focus to remain on reducing Bulk TD share

- (i) UBI has stepped up its efforts to accelerate deposit growth to fund robust credit growth with focus on retail deposits.

- (ii) **CASA Deposits:** Witnessing a fall in CASA ratio to 34.2% post amalgamation, a need to improve CASA mix was clearly felt. Resultantly, the bank focused on increasing the CASA deposits through taking up various new initiatives as follows:

UBI identified nearly 233 branches to handle bulk deposits, thus enabling other branches to focus on retail term deposits and CASA portfolio.

Launched various campaigns to open new CASA accounts such as 'My Bank My CASA' during FY21 (1.7 mn SA & 0.8 CA resulting in ₹19.7bn fresh funds), 'CASA Unnati', 'CASA Champion' and 'CASA Vistaar' during FY22 generating ₹24.2bn, ₹27.8bn and ₹16.6bn respectively.

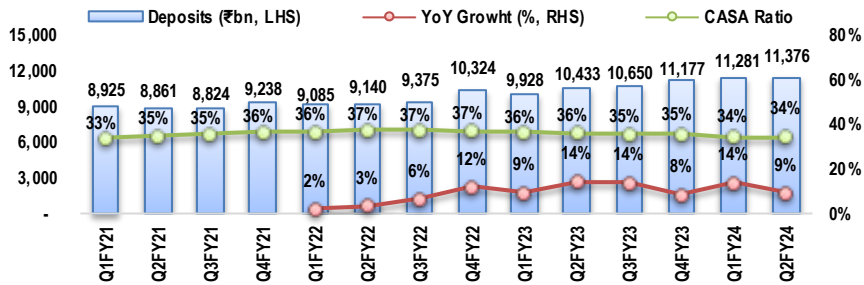
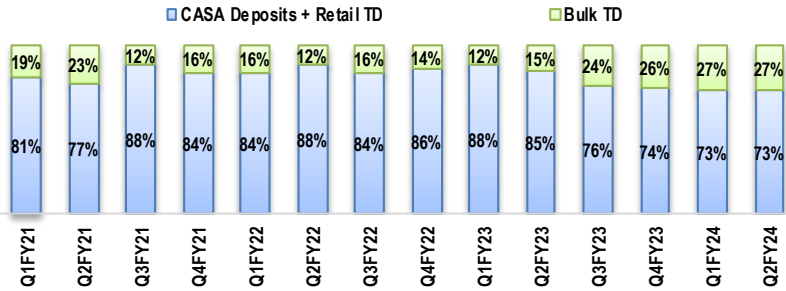
- (iii) **Salary Accounts:** Focusing on salary accounts, campaigns launched by the bank led to opening up of 15,626 and 48,286 salary accounts during FY21 and FY22 respectively. In FY23, it signed MoU with the Indian Navy and Naval Dockyard Mumbai to open salary account. Additionally, establishment of a corporate salary division aided in achieving 26.6% growth in the salary portfolio.

- (iv) **HNI / NRI Accounts:** Keeping in view the growing opportunity in NRI customer segment, the bank launched special campaign during FY22 and was able to open ~4,000 accounts. To cater to the growing needs, two new products - Union Royal SB NRE (URNRE) and Union Royal SB NRO (URNRO) were launches and also set up a dedicated NRI Back office at Mangalore. To provide personalized services and tailor-made products to HNI clients, Relationship Managers have been deployed.

Deposits		
(₹ bn)	Q2FY24	% YoY Growth
State Bank of India	45,312	12%
Punjab National Bank	13,099	10%
Bank of Baroda	11,999	16%
Canara Bank	12,322	9%
Union Bank of India	11,376	9%
Bank of India	6,965	9%
Central Bank of India	3,713	8%
Bank of Maharashtra	2,393	22%

Data for SBI, BoB and BoI as on Q1FY24

Source: Company, Way2Wealth Research

CASA ratio remained stable; Despite shift to TD amid higher interest rates

Bulk TD peaked amid higher interest rates


Source: Company, Way2Wealth

4. Proactive and prudent approach to risk management led Asset Quality improvement

- Post amalgamation, GNPA of the combined entity rose by ~50 bps to 14.7%, recording one of the highest NPA levels in the PSB basket. Thus, improvement in asset quality was one of the key areas of focus under the Project Samarth.
- Several measures undertaken by UBI's management to improve NPA asset recovery included setting up of specialized cells for monitoring of large accounts in the range of ₹1-2.5bn and ₹2.5bn and above.
- Prudent and Proactive Risk Management:** UBI adopted prudent and proactive risk management approach. Increase in Provision Coverage ratio from 78% at the time of amalgamation to more than 90% in Q1FY24 is clearly reflective of its prudent risk management approach.
- Application of Digitization:** One of the key support pillars in the improvement of the bank's asset quality was the implementation of various digital platforms to monitor and control NPAs through efficient use of data management and analytical tools, automation of risk assessment processes, etc. Under the digitization drive, plans are in place for UNION SARAS (Stressed Assets Recovery Automated Solution) to digitize 18 modules w.r.t. Willful default classification, Insurance, Valuation and Advocate empanelment along with creation of SARFAESI repository, digitization of DRT, NCLT cases, Lok Adalat settled cases etc. Also, the mobile recovery app is equipped with geo tagging of properties for effective follow up and better employee experience.
- Preventive Monitoring:** Digital advancement is extensively used by the bank for its timely analysis of data, as technologies like Robotic Process Automation, Machine Learning and Oracle Data base are being implemented for streamlining and updating of the customer data. Additionally, a concept of Potential Stress Assets was also put in practice under which rigorous analysis of accounts/portfolio is conducted based on Early Stress Signals (ESS).
- Effective use of tie-ups with fin-techs:** The bank is also channelizing information from Fintech platform for building database of financials. For e.g. in agriculture lending, onboarding of fin-tech firms for use of digital records and geo-tagging enables the bank to well manage its slippages.
- Recovery of Assets:** Various initiatives undertaken to improve the timely recovery of assets includes use of legal remedies available under SARFAESI and DRT Acts, negotiated settlements for OTS, sale of distressed assets to ARCs/NBFCs/BANK, etc.

Gross NPA

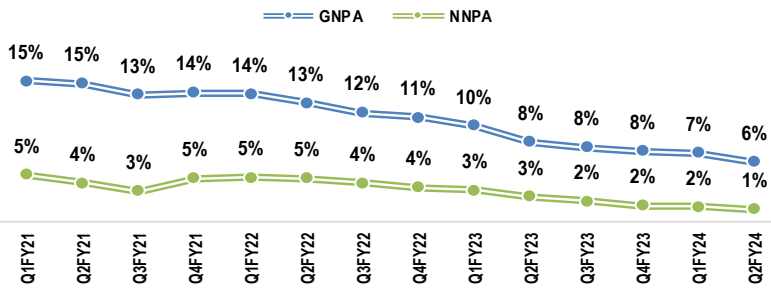
Bank	Q2FY24	QoQ bps Chng
Bank of Maharashtra	2.2%	-9 bps
State Bank of India	2.8%	-2 bps
Bank of Baroda	3.5%	-28 bps
Central Bank of India	4.6%	-33 bps
Canara Bank	4.8%	-39 bps
Union Bank of India	6.4%	-96 bps
Bank of India	6.7%	-64 bps
Punjab National Bank	7.0%	-77 bps

Net NPA

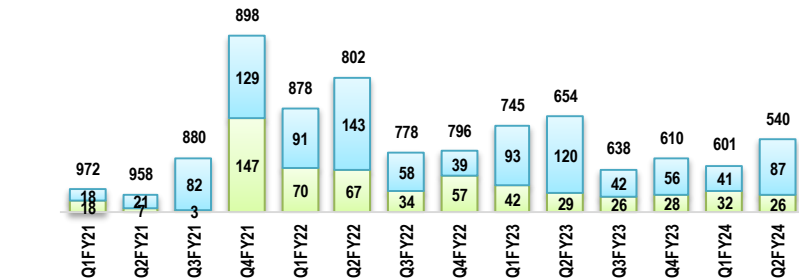
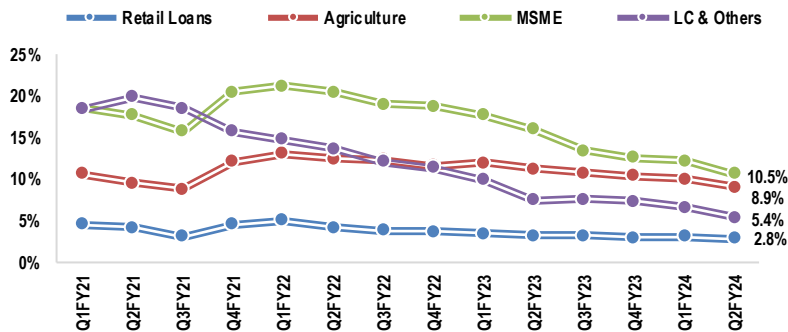
Bank	Q2FY24	QoQ bps Chng
Bank of Maharashtra	0.2%	-1 bps
State Bank of India	0.7%	4 bps
Bank of Baroda	0.8%	-11 bps
Union Bank of India	1.3%	-28 bps
Canara Bank	1.4%	-16 bps
Punjab National Bank	1.5%	-51 bps
Central Bank of India	1.6%	-11 bps
Bank of India	1.7%	-1 bps

Data for SBI, BoB and BoI as on Q1FY24

Source: Company, Way2Wealth Research

Asset Quality improved significantly over the years

Closing Gross NPA (₹ bn) :
Increasing recoveries and falling slippages

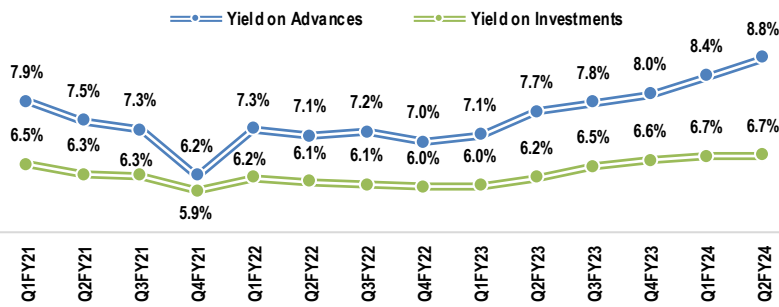
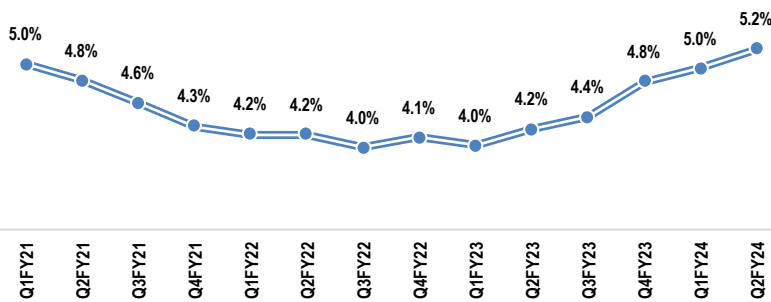
■ Reductions (Cash Recovery + Upgradation + Write Off) ■ Addition (Fresh Slippage + Increase in existing NPA)


Improving Sectoral NPA


Source: Company, Way2Wealth Research

5. Significant headroom available for the increase in Yield on Advances; Yield expansion likely to surpass rise in cost of deposits

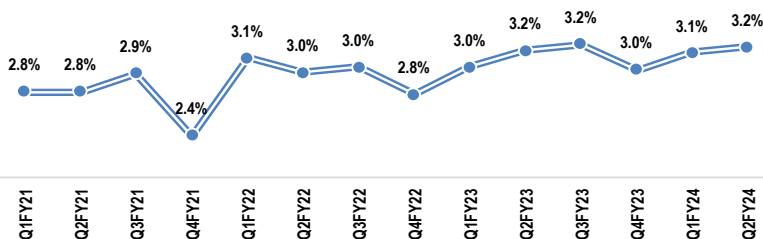
- Consistent improvement in the yield on advances of the bank is largely an outcome of a prudent lending strategies adopted by the bank.
- The mix of MCLR loans in the overall loan book stands at ~50% and only a quarter of the book has been repriced of higher rate of interest. As a result, nearly ₹2760bn of advances are yet to get repriced over rest of FY24. This situation provides clear visibility on availability of headroom for improvement in yields going forward.
- UBI aims to increase CASA deposits so as to maintain the cost of deposits.
- At present, LCR of the bank remains strong at 161% and as this indicates availability of sufficient liquidity at the bank's disposal, the management does not foresee any immediate need to increase bulk deposits from current levels. If the credit growth accelerates, the bank will have no option but to consider accepting bulk deposits which may bump-up the CoD in near term.
- However, focus remains on bringing the cost of deposits down by implementing these measures.

Rising share of RAM segment driving improvement in yield on advances

Rising interest rates leading to higher cost of deposits; Focus on remains on improving CASA mix


Source: Company, Way2Wealth Research

6. Current NIMs ahead of sustainable guidance provided; scope for further improvement

- For H1FY24, net interest margin stood at 3.14% expanding from 3.07% in FY23 and 3.06% in H1FY23, on account of better credit growth seen in the RAM segment enabling faster repricing of assets, leading to better margin improvement.
- Keeping in view, expected liability repricing and gradual growth in deposits, NIMs can remain slightly under pressure, however, anticipation for fall in cost of deposits and asset repricing still left large part of the MCLR based loan book, the management has provided for 3% sustainable guidance level.

Better RAM segment growth enabling faster asset repricing; leading to NIM expansion amid higher interest rate scenario


Source: Company, Way2Wealth Research

Cost of Funds

Bank	Q2FY24	QoQ bps Chng
Bank of Maharashtra	3.9%	23 bps
Punjab National Bank	4.3%	13 bps
Bank of India	4.3%	37 bps
State Bank of India	4.6%	56 bps
Central Bank of India	4.7%	23 bps
Bank of Baroda	4.7%	25 bps
Canara Bank	4.9%	10 bps
Union Bank of India	5.2%	24 bps

Yield on Advances

Bank	Q2FY24	QoQ bps Chng
Bank of Maharashtra	8.9%	31 bps
Union Bank of India	8.8%	38 bps
State Bank of India	8.8%	68 bps
Central Bank of India	8.6%	33 bps
Canara Bank	8.6%	13 bps
Bank of Baroda	8.4%	-7 bps
Punjab National Bank	8.2%	10 bps
Bank of India	8.1%	15 bps

Data for SBI, BoB and BoI as on Q1FY24

Source: Company, Way2Wealth Research

Net Interest Margin

Bank	Q2FY24	QoQ bps Chng
Bank of Maharashtra	3.9%	3 bps
Central Bank of India	3.4%	-19 bps
State Bank of India	3.3%	-27 bps
Bank of Baroda	3.3%	-26 bps
Union Bank of India	3.2%	5 bps
Punjab National Bank	3.1%	3 bps
Bank of India	3.1%	11 bps
Canara Bank	3.0%	-3 bps

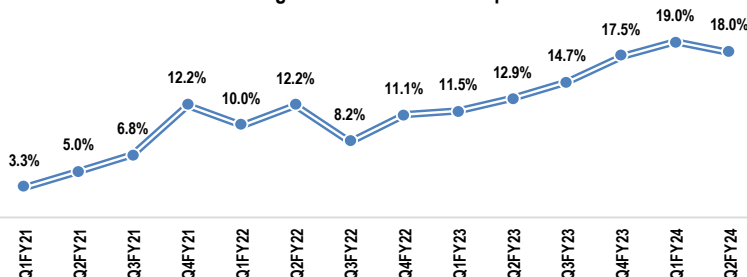
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Source: Company, Way2Wealth Research

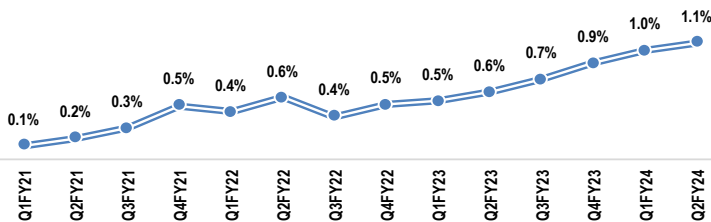
7. Improving business metrics driving return ratio expansions

- (i) Through focus on optimized utilization of assets to generate higher profitability, formation of verticals for various business segments leading to improved resources allocation and continuous investment in digital assets has led to significant expansion in RoA over the last few years, thus exceeding 1.0% level.
- (ii) Improving profitability and effective management strategies to reinvest the capital for improving the operational performance / efficiency and to support the future growth has enabled the bank to consistently report expansion in RoE for last many quarters.
- (iii) With continuous focus on rationalization of branches and extensive application of various off-lately developed technological platforms along-with rising profitability, UBI would certainly continue on its path of return ratio expansion.

Improving profitability and effective management strategies leading to continuous RoE expansion



Persistent improvement in RoA driven by optimized utilization of assets and investment in digitization



Source: Company, Way2Wealth Research

8. Branch rationing and calculated infra spends lead to fall in C/I ratio

- (i) Over last few quarters, based on improved operational efficiency supported by branch rationalization, creation of separate verticals of various business segments, integration of digital infrastructure, UBI has been able to maintain low cost to income ratio.
- (ii) **Branch rationalization:** In order to keep operational costs under control, post amalgamation UBI has kept branch rationalization as its priority, aiming to close ~750 branches. Thus, total branch count of 9,587 after consolidation has been brought down to 8,521 by end-H1FY24, thus closing more than 1,000 branches.
- (iii) **Focus on employee productivity:** Total staff post amalgamation stood at 77,237, which was then reduced to 75,594 by end-FY23, as the bank's preference to improving employee productivity over increasing the strength have started reflecting in unit operating metrics.

Return on Equity

Bank	Q2FY24	QoQ bps Chng
State Bank of India	24.4%	499 bps
Bank of Maharashtra	23.3%	-48 bps
Canara Bank	22.5%	-44 bps
Bank of Baroda	20.0%	-479 bps
Union Bank of India	18.0%	-100 bps
Bank of India	14.9%	138 bps
Punjab National Bank	10.2%	265 bps
Central Bank of India	9.2%	272 bps

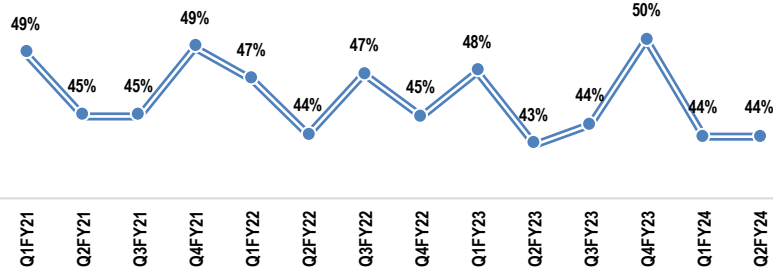
Return on Assets

Bank	Q2FY24	QoQ bps Chng
Bank of Maharashtra	1.4%	4 bps
State Bank of India	1.2%	-1 bps
Bank of Baroda	1.1%	-23 bps
Union Bank of India	1.1%	7 bps
Canara Bank	1.0%	2 bps
Bank of India	0.7%	8 bps
Central Bank of India	0.6%	19 bps
Punjab National Bank	0.5%	12 bps

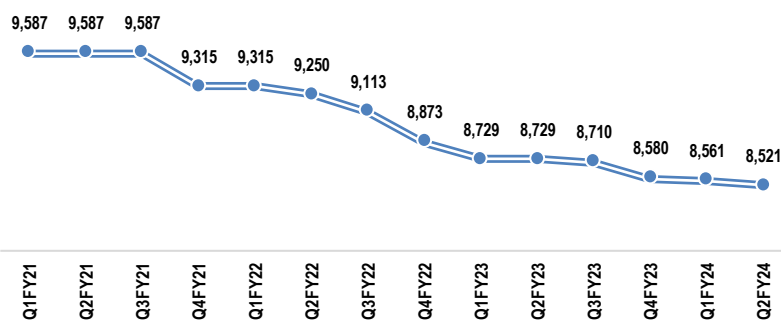
Data for SBI, BoB and BoI as on Q1FY24

Source: Company, Way2Wealth Research

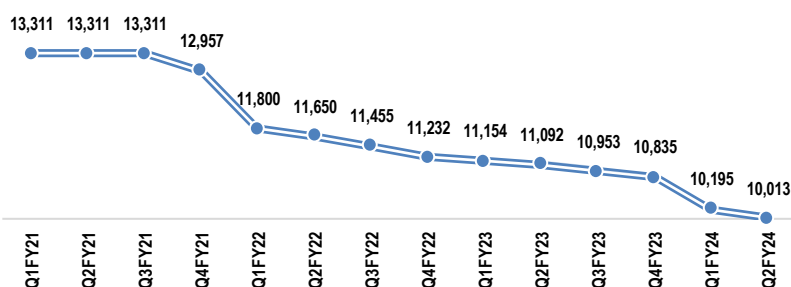
Cost to Income Ratio remains stable underpinned by branch rationalization and digital initiatives undertaken



No. of Branches



No. of ATMs



Source: Company, Way2Wealth Research

9. Focus on strengthening allied business channel

- (i) In an attempt to promote digitally-enabled offerings, provide bouquet of financial services products and improve customer experience, UBI developed its system capabilities to enable customers purchase third party products like Mutual Fund and Insurance, on the bank's website and mobile platforms.
- (ii) **Insurance:** With an objective to become one-stop solution provider for Life, Non-life and Health insurance, bank has developed a digital platform for the insurance business. For e.g. U-mobile app provides optionality for customers to buy PMSBY insurance cover.

Several initiatives have been undertaken to promote this business such as lead generation / sale of insurance products via business correspondents, launch of various insurance products such as Group Cancer (Religare Health Insurance), Group critical illness (Manipal Cigna Health Insurance), UNICARE policy for HNI (Bajaj Allianz General Insurance), Chola Farmer Care Package for all-inclusive compensation (Chola MS), etc.

- (iii) **Mutual Fund:** To expand array of services being offered, UBI actively engages in wealth management business and one of the key initiatives started under this segment is introduction of mutual funds products.

To facilitate easy access to this financial product, bank has launched a digital solution for Mutual Funds sales through Mobile App Vyom and also made available through Net-Banking channels.

Additionally, it has entered into corporate tie-ups with Nippon India Mutual Fund and LIC Mutual Fund.

- (iv) **Account Aggregator:** UBI became the first public sector bank to launch the Account Aggregator platform and is working with its technology partners to integrate with Open Network for Digital Commerce (ONDC) and Open Credit Enablement Network (OCEN) for Digital Lending. The bank has on-boarded 5 account aggregators.

(₹ mn)	FY20	FY21	FY22	FY23	% CAGR Growth
Life Insurance	900	1,421	1,702	2,337	37%
Non-Life Insurance	144	487	481	508	52%
Health Insurance	118	324	380	491	61%
Mutual Fund	126	173	177	198	16%
Total Other Income	1,288	2,406	2,741	3,534	40%

Source: Company, Way2Wealth Research

10. Digitization

- (i) In a highly competitive environment, to capture the growing opportunity in digital business and establish itself as a next-generation digital-savvy institution, UBI aims to develop a strong digital ecosystem / infrastructure and as a result launched Project Sambhav. This project has led to a detailed roadmap for Digital Transformation and to build a Digital Bank within Bank. Initiatives highlighted under this project are:
- (ii) **Video KYC:** UBI made Video KYC available for all Digital Banking Units, 3 Field General Manager Offices, and five regions. This initiative resulted in opening up of over 4,000 accounts through Video KYC.
- (iii) **UVConn 2.0:** It is a digital platform that leverages WhatsApp Messenger to provide basic inquiries and services to customers.
- (iv) **Digital Banking Units (DBU):** UBI has established 7 DBUs pan India and are equipped with digital infrastructure such as interactive tablets, multi-functional kiosks, ATMs, video KYC apparatus, and Metaverse technology.
- (v) **Vyom App:** Key highlight of this project Sambhav is the launch of the Vyom App, which offers over 350 features and user-friendly design to enhance customer engagement.
- (vi) **Central Bank Digital Currency:** Reserve Bank of India has nominated UBI to participate in the Central Bank Digital Currency. As a result, bank has developed the CBDC-R application for a closed group of users.
- (vii) **FinTech & Ecosystem Partnerships:** To leverage the technology prowess developed by fin-tech companies, UBI has empaneled more than 90 fin-tech companies and engaged with 150 companies to implement digital solutions in segments such as agriculture, retail, and MSMEs.
- (viii) **Introduction of "Uni-verse":** In India, UBI has pioneered in the field of Meta-verse by launching a virtual lounge 'Uni-verse' with user interactive digital screens and digital displays for product videos, floating menus for new products.

2QFY24 Performance

Union Bank of India posted stellar performance in 2QFY24 with earnings growing by ~90% on account of sharp decline in the provisions during the quarter. Key highlight of the quarterly performance was the improvement in margins despite increasing cost of funds.

During the quarter, net interest income grew 10% YoY (3% QoQ) to ₹91bn as increase in interest earned (25% YoY/5% QoQ) was somewhat moderated by higher growth in interest expended (36% YoY/6% QoQ) on account of repricing of deposits.

On account of repricing in repo rate linked MCLR-based book, yield on assets expanded by 116bps YoY/ 38bps QoQ to 8.8% while cost of deposits were up 98bps YoY/ 24bps QoQ to 5.2% resulting in margin expansion of 3bps YoY/ 5bps QoQ to 3.2%. This situation is in contrast to the margin contraction seen across the board.

Loan book growth of 9.5% YoY (3.5% QoQ) to ₹8,472bn was tad below guidance of 10-12% provided earlier, while deposit growth of 9.0% (0.8% QoQ) to ₹11,376bn remained well within guidance range.

Asset quality improvement is well on track with GNPA level falling 207bps YoY/ 96bps QoQ to 6.38%, which the bank aims to bring down below 6% by end-FY24. While NNPA stood at 1.3% down 134bps YoY/ 28bps QoQ aided increase in PCR to 92% from 86.6% in Q2FY23.

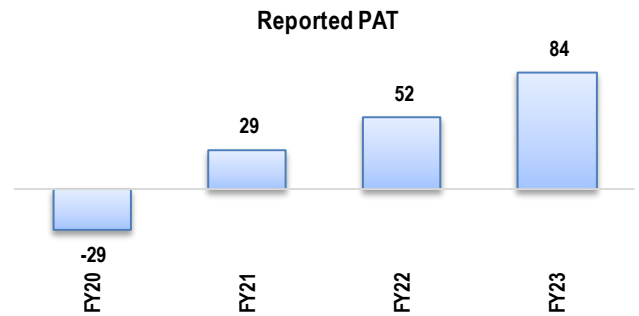
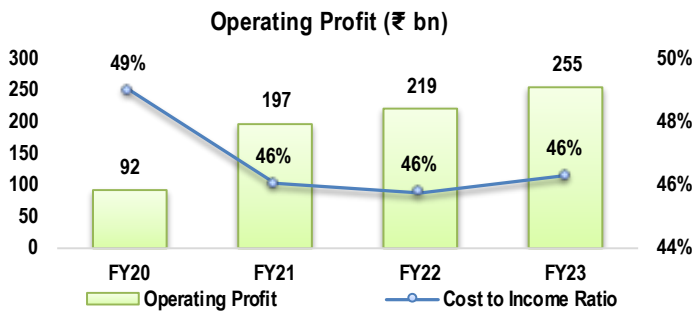
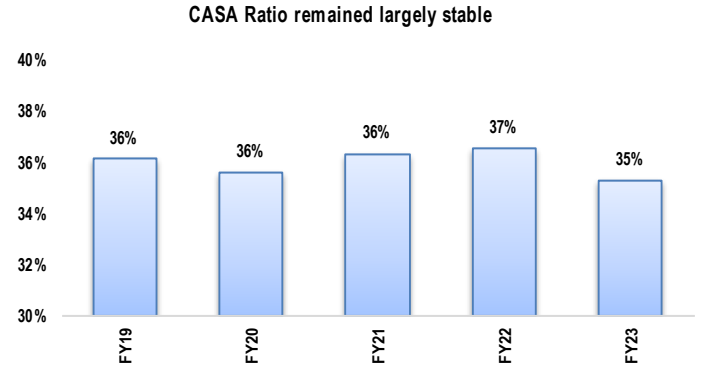
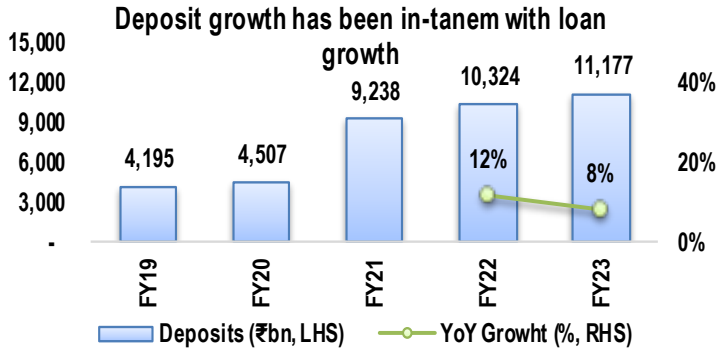
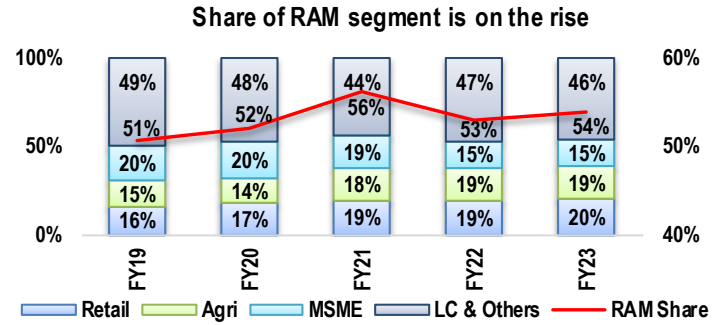
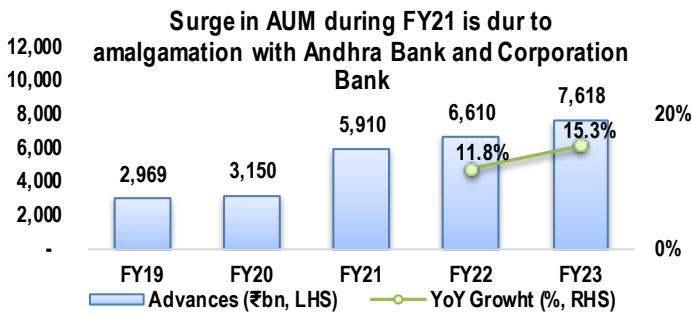
On the operational front, expenses grew 12% YoY/ flat QoQ to ₹56bn resulting in Cost-to-income ratio coming in at 43.7% (+47bps YoY/ flat QoQ).

For the quarter, provisions and contingencies were down significantly by 57% YoY/ 12% QoQ to ₹18bn leading to improved bottom-line profitability which grew 90% YoY/ 8% QoQ to ₹35bn.

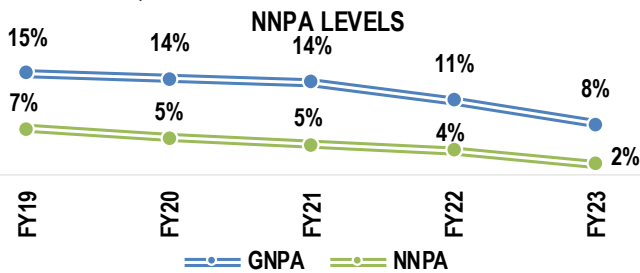
2QFY24 Performance

Particulars	Q2FY24	Q2FY23	% YoY Chng	Q1FY24	% QoQ Chng	FY23	FY22	% YoY Chng
Interest/Discount on Advances/Bills	175	138	27%	166	5%	568	452	25%
Income on Investments	56	53	6%	56	1%	214	199	7%
Interest on Batances with Reserve Bank of India and other Inter Bank Funds	13	4	204%	11	20%	21	21	-1%
Others	1	1		1		5	6	
Interest Earned	246	197	25%	235	5%	807	679	19%
Interest Expended	155	114	36%	146	6%	480	402	19%
Net Interest Income	91	83	10%	88	3%	328	278	18%
Net Interest Margin	3.2%	3.2%	3 bps	3.1%	5 bps	3.1%	2.9%	13 bps
Other Income	37	33	13%	39	-5%	146	125	17%
Total Income	128	116	11%	127	1%	474	403	18%
Employees Cost	31	27	12%	32	-3%	124	101	22%
Other operating E xpenses	25	23	11%	24	6%	95	83	15%
Total Operating Expenses	56	50	12%	56	1%	219	184	19%
Cost to Income Ratio	43.7%	43.2%	47 bps	43.7%	2 bps	46.3%	45.7%	53 bps
Core Profit	72	66	10%	72	1%	255	219	16%
Provisions and ContInqencles	18	41	-57%	20	-12%	133	133	0%
Credit Cost	0.8%	1.5%	-69 bps	1.0%	-16 bps	1.8%	2.1%	-35 bps
Profit Before Tax	55	25	118%	52	5%	121	86	41%
Tax Expense	19	7	198%	19	0%	37	33	11%
Profit After Tax	35	18	90%	32	8%	84	52	61%

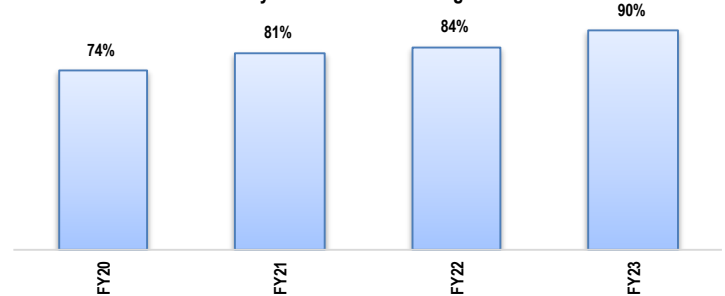
Financials in Chart



VARIOUS STEPS UNDERTAKEN BY UBI TO IMPROVE ASSET QUALITY REFLECTED IN FALLING GNPA AND NNPA LEVELS



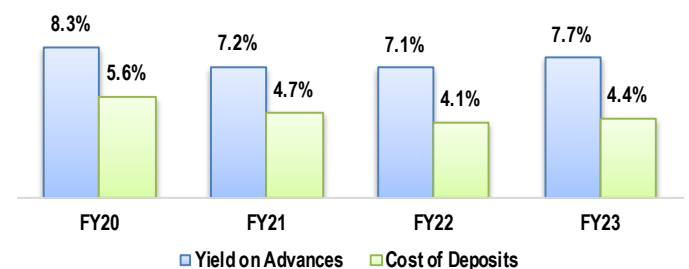
Notable increase in PCR provides the necessary balance sheet strength to the bank



Net Interest Margin



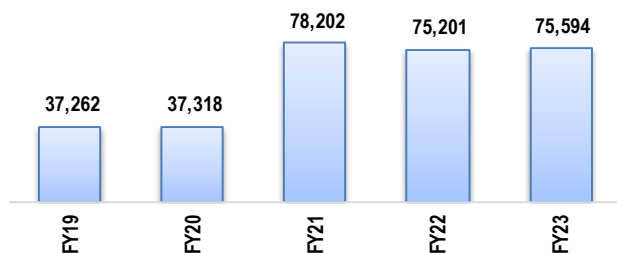
Increasing share of RAM segment led to better improvement in yields compared to cost of funds



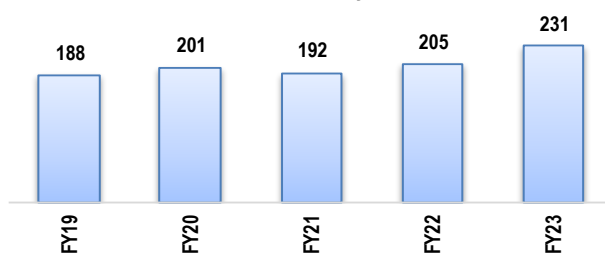
Source: Company, Way2Wealth

Branch Network and Employee productivity

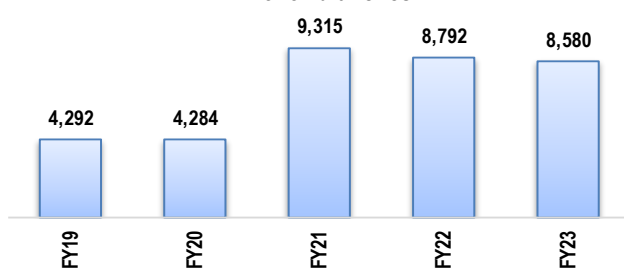
No. of Employee



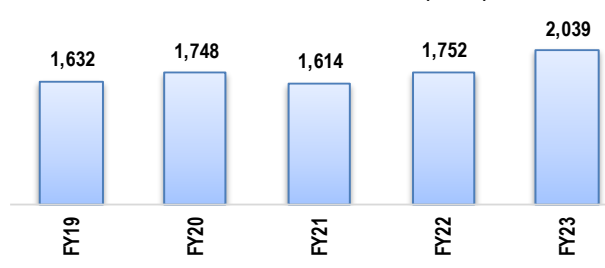
Business per Employee (₹ mn)



No. of branches



Business Per Branch (₹ mn)



Source: Company, Way2Wealth

Risks

- **Low CASA ratio; Increase in bulk deposits** – UBI's casa ratio at ~35% remains one of the lowest in the PSB basket. Additionally, contribution from Bulk Term Deposits is on the rise since Q1FY23. Although the management has ramped up its efforts to increase CASA ratio though undertaking several initiatives, it remains to be seen how to trajectory of CASA mix pans out over the medium term.
- **Further improvement in Asset Quality** – Through implementing prudent risk management approach, the bank has successfully been able to bring down NPA levels significantly to ~7% level currently. Although management aims to reach below 6% GNPA in FY24, it still remains on the higher side compared to some of other public sector banks.

View

Union Bank of India has stood strong navigating through multiple market cycles, providing financial services to its customers for more than 100 years now. This was only possible on the back of bank's ability to identify key challenges and emerging trends in the industry, to adopt to the changing needs of the market and exhibit resilience in operating business model.

Amalgamation with Andhra Bank and Corporation Bank marks a key milestone in the history of UBI, as the business of the bank nearly doubled post consolidation with these entities. Although the asset quality issues persisted even after the amalgamation, various initiatives undertaken to increase asset recovery, use of analytics, and implementation of digital solutions to automate review processes and increase in provision coverage ratio resulted in significant asset quality improvement. While healthy PCR also highlights strength in the bank's balance sheet, management guidance of reaching 6% GNPA in FY24 and keeping the credit cost below 1% level seems achievable, given the improving trends in slippages and asset recoveries.

On the operational front, as the branch network and staff count nearly more than doubled post amalgamation, one of the key concern was on the increase in costs and its subsequent impact on the profitability. However, through branch rationalization, creation of separate verticals for various business segments, integration of digital infrastructure and focus on improving employee productivity, UBI not only was able maintain but also showed improvement in cost to income ratios. Operational efficiency is likely to improve going forward as well, with significant investments done by the bank on automating several internal processes, use of various analytical tools for decision making and application of digital platforms to provide customer services.

While strong presence in rural and semi urban parts of the country and implementation of government schemes bodes well for the bank to improve credit growth in the agriculture segment, investment in technology for seamless customer experience, new product innovations and focus on servicing the affluent customer segment of HNI / NRI would enable UBI to achieve its aim of accelerated growth in retail segment. While guidance for overall credit growth is in the range of 10-12%, RAM credit may grow at relatively higher, mid-teen rate.

With successful conclusion of ₹50bn Qualified Institutional Placement, the bank's capital base stands strong and would support the credit growth with no requirement for further fund raising in near term.

At CMP of ₹101, Union Bank of India is trading at 0.7x its FY25e P/Adj. BV multiple. We remain positive on the stock and arrive at target price of ₹125, implying 0.9x FY25e P/Adj. BV. Hence we recommend to BUY at the current valuation.

FINANCIALS & VALUATION

(₹ bn)

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY23-26E CAGR
Interest/Discount on Advances/Bills	251	458	452	568	697	734	793	
Income on Investments	106	206	199	214	232	241	253	
Interest on Balances with Reserve Bank of India and other Inter Bank Funds	12	16	21	21	50	62	78	
Others	4	8	6	5	9	11	12	
Interest Earned	372	688	679	807	988	1049	1136	12%
Interest Expended	258	441	402	480	616	635	674	12%
Net Interest Income	114	247	278	328	372	415	462	12%
Other Income	53	117	125	146	154	161	169	
Total Income	167	364	403	474	526	576	631	
Employees Cost	34	93	101	124	129	144	160	
Other operating Expenses	42	75	83	95	100	111	123	
Total Operating Expenses	75	168	184	219	229	255	283	9%
Core Profit	92	197	219	255	297	321	348	11%
Provisions and Contingencies	107	173	133	133	79	86	96	-10%
Profit Before Tax	-15	24	86	121	217	236	252	
Tax Expense	-11	-5	33	37	76	79	82	
Profit After Tax	-4	29	52	84	141	157	170	26%
Exceptional Item	25	0	0	0	0	0	0	-
Reported PAT	-29	29	52	84	141	157	170	26%

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital and Liabilities							
Capital	34	64	68	68	74	74	74
Preference share capital issued by subsidiary compai	-	-	-	-	-	-	-
Reserve and Surplus	304	581	637	715	901	1,057	1,227
Deposits	4,507	9,238	10,324	11,177	12,116	13,158	14,316
Borrowings	525	518	512	431	444	453	462
Other liabilities and Provisions	137	316	334	416	416	416	416
Total Capital and Liabilities	5,507	10,717	11,876	12,808	13,951	15,158	16,495
Assets							
Cash and Balances with Reserve Bank of India	201	379	461	503	595	592	644
Balances with Banks and Money at Call and Short N	350	465	734	619	675	735	805
Investments	1,524	3,315	3,485	3,393	3,430	3,527	3,643
Advances	3,150	5,910	6,610	7,618	8,510	9,548	10,713
Fixed Assets	48	73	72	88	92	96	100
Other Assets	234	575	514	586	649	660	590
Total Assets	5,507	10,717	11,876	12,808	13,951	15,158	16,495

Source: Company, Way2Wealth

TECHNICAL VIEW

Weekly Chart



UNION BANK OF INDIA has given an upside breakout from the short key resistance levels of 96 & 100 on weekly chart with good volumes suggesting upward bias. The stock has been trading in bullish price channel since June 2023 on the daily chart which suggests follow up buying taking place on every dips. Moreover, the stock is trading well above its 100 days & 200 days EMA (89 & 80) and this suggesting long term trend on union bank of India is likely to remain strong. The oscillators are picking up momentum, with RSI showing good strength above 50 levels. The daily and weekly chart structure looks positive, and one is advised to accumulate on dips for medium to long term gains, and it has immediate resistance at 114/118. With good volume support seen, a break above 118 levels will signify a continuing strength amongst the bulls and we could see the stock testing 127 and 132 levels in short term. The support level for the stock can be seen at 89 and 80 levels. Breakdown of 80-78 levels on closing basis would negate the short to medium term uptrend.

Technical Indicators/Overlays

Bollinger Bands (Upper - Lower)	122.55 - 81.75
Short Term - 20 & 50 Days EMA	71 & 66
Long Term - 100 & 200 Days EMA	89 & 80
Annualised Volatility	50.06
ADX	28.13
MACD	13.19
RSI	70.58
Average True Range(ATR)	15.16
AD Line	3.54 Cr
Standard Deviation	22.27
Pivot Levels - R1, R2	111 & 119
Pivot Point	105
Pivot Levels - S1, S2	91 & 97
ROC (%)	27.8

S. Devarajan

Head – Technical & Derivatives Research

devarajan.s@way2wealth.com

91-22-4019 2996

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Disclosure of Interest Statement: Union Bank of India Ltd. as on 1st November 2023

Name of the Security	Union Bank of India Ltd.
Name of the analyst	Prasad Hase
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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