

UNION BANK OF INDIAIssue is Open on: 20th August 2002Issue Closes on: 28th August 2002

Proposed Listing: Mumbai and the NSE

Particulars of issue:

- Issue Size: Rs 2.88 BN (180 MN equity shares of Face Value Rs 10 with a premium of Rs 6 per share)
- Of the above said issue, 18 MN shares (Face value Rs 10 and premium Rs 6) are reserved for allotment to the permanent employees (including whole time directors) on proportionate basis, which amounts to Rs 288 MN. So the net offer to the Indian public through the IPO is 162 MN shares of Face value Rs 10 with a premium of Rs 6 per share which amounts to Rs 2.6 BN
- The applications should be for a minimum of 200 equity shares and in multiples of 100 shares thereafter.

Purpose of the Issue:

- The major objects of the issue include augmenting the long-term resources of the bank, meeting its future capital adequacy requirements and listing of the shares on the Stock Exchange.
- The current Capital Adequacy Ratio (CAR) of the bank stands at 11.07% against the RBI stipulation of 9%. However, in the coming years, the bank expects growth in its business activities and operations, which in turn will increase the risk weighted assets of the bank ultimately impacting the CAR. Hence the bank proposes to augment its network to sustain a healthy CAR.

About the bank:

- Union Bank of India (UBI) is one of the oldest players amongst the PSU banks. Formed in 1919, the bank has consistently grown over the last 83 years and currently ranks amongst the largest banks in the country with total business (advances plus deposits) exceeding Rs. 610 BN.
- The bank has a large network of branches spread across the country. As of 31st March 2002, the bank had a total of 2023 branches, of which 40% are situated in rural region, 22% in semi-urban, 21% urban and 17% in metropolitan region. The bank has also opened 61 specialized branches to cater to the needs of Industries, Overseas business, Trading and Small-Scale Industries.
- The bank launched its credit card business under the brand "India Card" in 1997. Currently the total card base of the bank stands at 18700. Union Bank also renders Cash Management Services. This service is spread across 35 cities currently.
- Union Bank has installed its own Wide Area Network (WAN) linking select branches and controlling offices. The bank also commenced the process of networking 500 branches by engaging leading consultants for implementing a centralized core banking solution.
- The bank has plans to foray into distribution of insurance policies and business of importing the gold.
- Before the issue, the paid up capital of the bank stands at Rs 3.38 BN, with the government holding at 100%. The bank has received approval from government for returning Capital amounting to Rs 560 MN. So after the proposed issue, the paid up capital of bank would effectively be Rs 4.6 BN and the government holding would reduce to 60.8%.

Financials:

Rs MN	FY00	FY01	FY02
-Interest earned	33151.1	37329.5	40156.8
-Total other income	3017.9	3192.8	4863.4
-Interest expended	23580.3	25139.5	26790.4
-Total operating expenses	8453.6	10193.4	9665.4
Profit before provisioning and contingencies	4135.1	5189.4	8564.4
Less: Provision and contingencies	2865.5	3386.5	5551.1
Net Profit	1269.6	1802.9	3013.3
Equity	3380.0	3380.0	3380.0
EPS	3.8	5.3	8.9
Dividend (%)	20.0	20.0	14.3
Book Value	36.8	40.2	47.0
RoNW(%)	10.2	13.3	19.0
RoA(%)	0.4	0.5	0.7
Net NPA to Net Davances(%)	7.8	6.9	6.3
Capital Adequacy Ratio(%)	11.4	10.9	11.1
Cost of Deposit (%)	8.0	7.6	7.0

- The bank has a good profitability record in recent past. Its net profit has shown a CAGR of 27% over last 3 years. For FY02, it has earned a profit of Rs 3 BN on a turnover of Rs 45 BN. This translates into an EPS of Rs 8.92 on the equity capital as of 31st March 2002. The book value also stood at a healthy Rs.47 per share.
- At the end of FY02, the bank has total deposits of Rs 398 BN and has extended advances worth Rs 213 BN. These have shown a CAGR of 14.5% and 17% in last five years. The cost of deposit for bank stands at 7%.
- During FY02, the bank earned an average interest rate of 12.2% on the earning assets. The interest earned shows a declining trend over the past four years and although this declining trend is partially offset by the reduction in the interest expense, the Net Interest Margin (NIM) for the bank has come under pressure. As a consequence, NIM for the bank has come down from 4% in FY98 to 3.5% in FY02. It is worth mentioning that, the NIM achieved by the bank ranks amongst the highest in the banking industry.
- The investments of bank amount to Rs 154 BN. The average yield on investments achieved during FY02 was 10.9%.
- The bank has a Capital Adequacy Ratio of 11% as against stipulated 9% by RBI.
- *The only concern for the bank is its high NPAs, which at the end of FY02 stand at 10.77% of the gross advances. After provisioning, the Net NPA to Net advances ratio comes to around 6.2%. The absolute amount of net NPAs of the bank as on March 31, 2002 stood at Rs. 13.38 bn. Although the bank has been able to reduce this ratio over the past five years, the value still remains above the industry average.*

Comparison with other PSU Banks:

Company	Union Bank	Andhra Bk	BOB	BOI	PNB	Syndicate Bk
Year	200203	200203	200203	200203	200203	200203
EPS	8.92	4.5	18.6	10.4	26.5	5.3
PAT (Rs MN.)	3013.3	2022.8	5459.2	5088.3	5623.9	2505.5
Price	16	14.5	51.4	28.7	45.9	14.1
Book Value	47	19.6	130.1	54.3	135.6	25.5
Equity	3380	4500.0	2960.0	4885.8	2653.0	4719.7
P/BV	0.3	0.7	0.4	0.5	0.3	0.6
P/E	1.8	3.2	2.8	2.7	1.7	2.6
Gross NPAs	10.8	5.2	12.4	9.4	12.3	NA
Net NPAs	6.2	2.4	5	6	6.6	4.6

Outlook:

- *The bank has shown a consistent growth over the last several years and has achieved as very good size, which is an encouraging factor. In the future too, the bank should be able to continue to display a healthy growth in its business, especially with an expected improvement in the economy. The bank has also been taking measures to control cost with closure of several branches and rationalizing the structure.*
- *The current offer price of Rs. 16 discounts the FY03E earnings of around Rs. 6-7 (considering the dilution in the equity of the bank and also considering that in FY02 there was a high treasury income which will be lower in FY03) by around 2.5 times. The book value post issue is expected to be around Rs. 40 per share.*
- **Generally other PSU banks have traditionally enjoyed a lower P/E band of around 2 to 5 due to their higher NPAs and PSU status. In the case of Union Bank too, the bank is expected to enjoy a similar P/E band. However, with a long-term perspective, the bank offers some value due to its low valuations, healthy price to book value, consistent dividend payout and size.**

We recommend an investment in the issue with a long-term perspective.

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