

Union Bank (UNBK) - BUY

Q2FY26 Result Update

Current Market Price (CMP)

Rs.149

Fair Value (FV)

Rs.175

Rationale:

- Union Bank reported a 10% yoy earnings decline in 2QFY26, led by ~15% yoy decrease in pre-provisioning operating profit (PPOP).
- Return on Assets (RoA) was 1.2%; Return on Equity (RoE) was 14%.
- Gross slippages stood at ~1%. Credit cost was 0.6%.
- We retain BUY rating with a Fair Value of Rs175 (Rs170 earlier), given the stable outlook on asset quality, healthy return ratios and inexpensive valuations.

👍 Positives:

- GNPL ratio declined ~20 bps qoq, while net NPL ratio was broadly flat qoq at 0.6%.
- Slippage ratio was low at 0.9%.
- Credit Deposit ratio remains comfortable at 79% (76% for domestic).
- Common Equity Tier 1 ratio also remains comfortable at ~14%.
- We expect the bank to continue delivering healthy RoE.

👎 Negatives:

- Business momentum remained soft (5% yoy loan growth and 2% yoy deposit growth).
- Non-interest income declined 6% yoy, driven by ~35% yoy decline in recoveries.
- NIM (reported) declined ~10 bps qoq. Trend in NIM was similar to peer PSU banks, we expected it to be better.



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months