

Union Bank of India (Revised)

October 6, 2021

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Lower Tier II (Basel II)	800.00 (800.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier I Bonds (Basel III) [#]	2,500.00 (4,200.00)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier II Bonds (Basel III) ^{&}	1,000.00 (3,000.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long-term Bonds	- (500.10)	-	Withdrawn
Upper Tier II	- (500.00)	-	Withdrawn
Total Long-term Instruments	4,300.00 (Rs. Four thousand three hundred crore only)		
Certificate Of Deposit	- (2,300.00)	-	Withdrawn
Total Short-term Instruments	-		

Details of instruments in Annexure-1

&Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I Capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

#CARE Ratings has rated the aforesaid Basel III Compliant Additional Tier-I Bonds after taking into consideration its key features as mentioned below:

- The bank has full discretion at all times to cancel coupon payments. The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, i.e., payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves including statutory reserves and/or credit balance in profit and loss account and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].*
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.*

Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE Ratings' definition of default and as such

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the various debt instruments of Union Bank of India (UBI) factor in majority ownership, demonstrated and expected continued support from the Government of India (GoI), UBI's increased systemic importance and position in the Indian banking sector as being the fifth-largest public sector bank in terms of business and asset size post amalgamation of erstwhile Andhra Bank and erstwhile Corporation Bank.

The ratings continue to derive strength from its strong and established franchise through pan-India branch network which helps strengthens the resource raising of the bank and making it able to garner low-cost and stable Current Account Savings Account (CASA) deposit base with comfortable liquidity.

Post merger of Andhra Bank and Corporation bank (w.e.f. April 01, 2020), the bank has raised capital which has improved the capitalisation levels of the bank enhancing its ability to absorb asset quality pressures as well as support growth in the near term.

The ratings are constrained on account of relatively weaker asset quality parameters, further impacted on account of Covid-19 stress and moderate but improving profitability.

CARE Ratings has withdrawn the rating assigned to Certificate of Deposit limit of Rs.2,300 crore as there is no outstanding issue against the rating as on date and the bank does not intend to issue any deposit under the rating.

CARE Ratings has withdrawn the rating assigned to Additional Tier I Bonds of Rs.1,700 crore, Infrastructure Bonds of Rs.500.1 crore, Tier II Bonds of Rs.2,000 crore and Upper Tier II Bonds of Rs.500 crore as these bonds have been redeemed by the bank.

Rating Sensitivities

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in asset quality parameters with Gross non-performing asset (NPA) reducing below 10% or Net NPA ratio of below 4% on a sustained basis.
- Improvement in capitalisation levels with significant cushion over regulatory requirement.

Negative factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Decline in asset quality parameters over with Gross NPA exceeding 15% or Net NPA ratio of over 6% on a sustained basis.
- Decline in profit for a sustained basis leading to deterioration in capitalisation levels below 12.5%.

Outlook: The outlook has been revised to 'Stable' from 'Negative' on account of improvement in capitalisation levels and profitability which are expected to improve over the medium term.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and expected continued support from by Government of India (GoI)

The credit profile of the bank continues to derive considerable comfort from expected support from GoI in terms of capital infusion, management and governance as GoI continues to be the majority shareholder holding 83.5% stake in merged UBI (erstwhile Corporation Bank and erstwhile Andhra Bank) as on June 30, 2021 (89.07% as on March 31, 2021) and GoI has demonstrated support towards public sector banks (PSBs) with regular capital infusions and steps to improve capitalization, operational efficiency and asset quality.

Considering the systemic importance and the dominant position of the UBI in the domestic banking system, the importance of the bank to GOI has increased and the bank is expected to receive timely and adequate capital and operational support from GOI as and when required.

Long track record of operations and position as one of the largest public sector banks in India with an established franchise and stable deposit profile

Established in 1919, UBI has a long and established operational track record of more than ten decades and is one of the largest nationalized banks in terms of business and outreach.

Post the amalgamation of Corporation Bank and Andhra Bank with UBI, the pan India geographical presence of UBI has risen substantially thereby furthering its existing strong franchise with a network of over 9,300 branches (including three international branches) and catering to a customer base of over 12 crore throughout the country. The bank had a network of over 11,800 ATMs as on June 30, 2021.

The low CASA of UBI grew significantly registering a growth of 13.15% as on March 31, 2021 (June 30, 2021: 11.47%) as compared with April 01, 2020 (merged), whereas the total deposits grew by 6.35% as on March 31, 2021 (June 30, 2021: 4.59%) as compared with April 01, 2020 (merged). Although there has been an improvement in the share of CASA deposits to the total deposits which grew from 34.15% as on April 01, 2020 (merged) to 36.33% as on March 31, 2021 (June 30, 2021: 36.39%), it remains relatively low as compared to average of large public sectors banks which is around 40%.

CASA and retail deposits (Term Deposits up to Rs.2 crore) as on March 31, 2021, constituted around 78% of total deposits (June 30, 2021: 81%) as compared with 76% as on March 31, 2020. Improvement in CASA and retail deposits combined with reduction of bulk deposits has translated into reducing the cost of deposits for UBI from 5.58% for FY20 to 4.66% for FY21 (refers to the period April 1 to March 31).

Moderate but improving capitalization levels

During FY20 (refers to the period April 01 to March 31), the bank received Rs.11,768 crore from GOI towards preferential allotment of equity shares, which helped the bank to report Capital Adequacy Ratio (CAR) (standalone) of 12.81% as on March 31, 2020 (P.Y.: 11.78%), Tier I CAR of 10.75% (P.Y.: 9.48%) and CET I Ratio of 9.40% (P.Y.: 8.02%). Post-merger, the bank reported CAR of 12.01% (Tier I CAR: 9.74%) and Common Equity Tier I (CET I) ratios 8.60% as on April 01, 2020 (merged) as against minimum regulatory requirement of CAR of 10.875%, Tier I CAR of 8.875% and CET I ratio of 7.375%.

During FY21, the bank did not raise equity capital but raised additional Tier I capital of Rs.1,705 crore and Tier II capital of Rs.2,000 crore through issuance of bonds resulting in improvement in overall capitalisation and the bank reported CAR of 12.56% as on March 31, 2021 with Tier I CAR of 10.35% and CET I Ratio of 9.07%. Furthermore, during Q1FY22, the bank raised equity capital of Rs.1,447 crore by way of Qualified Institutional Placement (QIP) of equity shares and Tier II bonds of Rs.850 crore, which helped improvement in CAR to 13.32% with Tier I CAR of 11.09% and CET I Ratio of 9.77%; however, the core equity capitalisation ratio continues to remain lower compared to other larger public sector banks. The bank intends to maintain a cushion of 1% over the minimum regulatory requirement on an on-going basis.

The Department of Financial Services Gazette notification no. CG-DL-E-23032020-218862 (S.O. 1200 E) dated March 23, 2020, which is referred to as Nationalised Banks (Management and Miscellaneous Provisions) Amendment Scheme, 2020, allows nationalised banks to set off accumulated losses against the share premium account subject to approval from shareholders, GOI and the Reserve Bank of India (RBI). During FY21, UBI has set-off the entire accumulated losses of Rs.32,758.49 crore against the Share Premium Account which has improved the distributable reserves position of the bank.

Key Rating Weaknesses***Moderate asset quality***

UBI's asset quality parameters continued to remain moderate with improvement in FY21 with lower amount of slippages at Rs.17,443 crore during FY21 as compared with Rs.25,147 crore (merged) during FY20 and continued write-offs (Rs.16,984 crore for FY21 as compared with Rs.16,425 crore for FY20).

The bank reported Gross NPA ratio of 13.74% and Net NPA ratio of 4.62% as on March 31, 2021 (13.60% and 4.69% as on June 30, 2021) as compared with Gross NPA ratio of 14.59% and Net NPA ratio of 5.22% as on April 01, 2020 (merged). The bank's provision coverage ratio without TWO (PCR) stood at 69.62% as on March 31, 2021. The bank's Net NPA to Net worth ratio stood at 62.56% as on March 31, 2021 (58.04% as on June 30, 2021) as compared with 80.39% as on April 01, 2020 (merged).

Segment-wise MSME has the highest NPA at 21.17%, followed by corporates at 14.70% and agriculture at 13.04% as on June 30, 2021. Fresh slippages for Q1FY22 were high at Rs.7,049 crore largely on account of the impact of second wave of covid-19 on MSME segment and to some extent on Retail and Agriculture segment but the Gross NPA reduced on account of significant upgradations during the quarter resulting the Gross NPA to moderate from FY21 levels.

Furthermore, Gross NPA is not expected to reduce significantly during FY22 as the total stressed accounts (SMA 2 and standard restructured including covid restructuring) constituted around 6.73% of gross advances as on June 30, 2021, and may contribute to fresh slippages during FY22.

Muted advances growth

During FY21, the bank's advances (merged) declined marginally by 1.9% at Rs.6,53,684 crore against industry credit growth of 5.6%, as the bank went slow in wholesale segment (corporate and overseas) and concentrated more on RAM (Retail, Agriculture and MSME). While the bank's wholesale advances (corporate and overseas) declined by 12.5%, the RAM segment grew by 8.4% changing the composition of wholesale to retail advances from 49:51 as on April 01, 2020 (merged) to 44:56 as on March 31, 2021. Within the RAM segment, retail and agriculture advances saw good growth at 10.5% and 11.9%, respectively, during the year, whereas MSME growth was modest at 3.2%. As on June 30, 2021, the gross advances book was Rs.6,45,091 crore with proportion of wholesale and retail advances marginally changing to 45% and 55%, respectively.

Modest but improving profitability

During FY21, UBI reported Profit After Tax (PAT) of Rs.2,906 crore on total income of Rs.80,104 crore. The bank's Net Interest Income (NII) and Pre Provisions Operating Profit (PPOP) for the year FY21 stood at Rs.24,688 crore and Rs.19,259 crore, respectively. UBI's Net Interest Margin (NIM) and Pre Provisions Operating Profit (PPOP) was 2.41% and 1.88%, respectively, on average total assets. The bank made provisions (excluding for income tax) of Rs.16,860 crore which constituted 1.64% of average total assets resulting in Profit before tax of Rs.2,399 crore for FY21. During FY21, the bank had write-back of DTA of Rs.507 crore on account of accumulated losses of previous years for merged banks which helped UBI post a PAT of Rs.2,906 crore translating in return on average total assets (ROTA) of 0.28%.

UBI reported a net profit of Rs.1,181 crore on a total income of Rs.20,035 crore for the quarter ended June 30, 2021 translating into ROTA of 0.43% (annualised) as against a net profit of Rs.333 crore on total income of Rs.19,891 crore for the corresponding quarter of the previous year. The improvement was on account of on account of expansion of NIM by 30 basis points combined with significant increase in non-interest income. Going forward, we expect UBI to continue reporting stable profits over FY22.

Liquidity: Strong

The liquidity position of the bank was comfortable with well-matched asset liability maturity (ALM) profile as on June 30, 2021, with positive cumulative mismatches in all time buckets upto 1 year. The bank's average Liquidity Coverage Ratio (LCR) stood at 168.64% for the quarter ended June 30, 2021. Comfort can be drawn from the excess Statutory Liquidity Ratio (SLR) maintained by UBI at 8.43% of net demand and time liabilities as on June

30, 2021. Furthermore, the bank manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. Furthermore, the bank has access to systemic liquidity like RBI's LAF and MSF facility along with access to refinance from NHB, NABARD, etc, and access to call money markets.

Analytical approach: Standalone along with factoring in expected support from the majority shareholder, Govt. of India.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology: Notching by factoring linkages with Government](#)

[Rating Methodology - Banks](#)

[Financial Ratios – Financial Sector](#)

[Criteria for Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

About the Bank

Union Bank of India (UBI), after merger (erstwhile Corporation Bank and erstwhile Andhra Bank), has become the fifth-largest bank PSU in India with global business of Rs.15,53,619 crore and asset size of Rs.10,64,937 crore as on June 30, 2021 (Rs.15,77,489 crore and Rs.10,71,706 crore, respectively, as on March 31, 2021). Government of India (GOI) is the majority shareholder holding 83.5% stake in merged UBI as on June 30, 2021 (89.07% as on March 31, 2021). As on June 30, 2021, the bank had a network of over 9,300 branches (including three international branches), 11,800 ATMs as on June 30, 2021, and catering to a customer base of over 12 crore throughout the country.

The bank has five subsidiaries, namely, Union Bank of India (UK) Limited (100% stake), Union Asset Management Co. Private Limited (100% stake), UBI Services Ltd (100% stake), Andhra Bank Financial Services Ltd (100% stake) and Union Trustee Co Pvt Ltd (100% stake). Additionally, UBI has four joint ventures and one associate as on June 30, 2021.

UBI reported a net profit of Rs.1,181 crore for the quarter ended June 30, 2021, on a total operating income of Rs.20,035 crore.

Brief Financials (Rs. crore)*	FY20 (A) (Unmerged)	FY21 (A) (Merged)
Total operating income	42,492	80,104
PAT	-2,898	2,906
Total Assets	5,40,152	10,50,840
Net NPA (%)	5.49	4.62
ROTA (%)	-0.56	0.28

A: Audited;

Note: All Analytical ratios are as per CARE Ratings' calculations.

Total Assets exclude deferred tax assets and are net of revaluation reserve

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument: Detailed explanation of covenants of the rated instruments is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Instrument Details

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Lower Tier II Bonds	INE692A09241	28-Dec-12	8.90%	28-Dec-22	800	CARE AA+; Stable
Basel III Compliant Perpetual Bonds (ATI Bonds)	INE692A08029	15-Sep-16	9.50%	Perpetual (call option after 5 years)	1,000	CARE AA-; Stable
Basel III Compliant Perpetual Bonds (ATI Bonds)	INE692A08037	04-Nov-16	9.00%	Perpetual (call option after 5 years)	1,000	CARE AA-; Stable
Upper Tier II Bonds Series XV	INE692A09233	28-Jun-10	8.48% up to 10 years Step up to 8.98% after 10th year if call option not exercised	28-Jun-25	-	Withdrawn
Tier I Bonds (Basel III) – Perpetual Bonds – Series III #	INE434A08067	05-Aug-16	10.99%	Perpetual (call option after 5 years)	-	Withdrawn
Tier II Bonds - Series A (Basel III) #	INE434A08026	16-Sep-15	8.58%	16-Sep-25	-	Withdrawn
Tier I Bonds (Basel III) – Perpetual Bonds – Series IV #	INE434A08083	31-Oct-17	9.20%	Perpetual (call option after 5 years)	500	CARE AA-; Stable
Long Term Bonds (Infrastructure Bonds) #	INE434A08018	22-Aug-14	9.35%	22-Aug-21	-	Withdrawn

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tier I Bonds (Basel III) – Perpetual Bonds #	INE434A08042	19-Feb-16	10.95%	Perpetual (call option after 5 years)	-	Withdrawn
Tier II Bonds - Series B (Basel III) #	INE434A08034	18-Dec-15	8.63%	18-Dec-25	-	Withdrawn
Tier II Bonds - Series C (Basel III) #	INE434A08059	27-Jun-16	8.65%	27-Jun-26	-	Withdrawn
Tier II Bonds - Series D (Basel III) #	INE434A08075	24-Oct-17	7.98%	24-Oct-27	1,000	CARE AA+; Stable
Certificate Of Deposit programme					-	Withdrawn

#Transferred from erstwhile Andhra Bank to Union Bank of India consequent to amalgamation into Union Bank of India (UBI)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (14-Feb-20)2)CARE AA (CWD) (07-Jan-20)3)CARE AA (CWD) (11-Sep-19)	1)CARE AA; Stable (02-Jan-19)
2	Bonds-Upper Tier II	LT	-	-	-	1)CARE AA; Negative (07-Oct-20)	1)CARE AA (CWD) (07-Jan-20)2)CARE AA (CWD) (11-Sep-19)	1)CARE AA; Stable (02-Jan-19)
3	Bonds-Lower Tier II	LT	800.00	CARE AA+; Stable	-	1)CARE AA+; Negative	1)CARE AA+ (CWD) (07-Jan-20)2)CARE	1)CARE AA+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						(07-Oct-20)	AA+ (CWD) (11-Sep-19)	(02-Jan-19)
4	Bonds-Perpetual Bonds	LT	2000.00	CARE AA-; Stable	-	1)CARE AA-; Negative (07-Oct-20)	1)CARE AA- (CWD) (07-Jan-20)2)CARE AA- (CWD) (11-Sep-19)	1)CARE AA-; Stable (02-Jan-19)
5	Bonds-Tier I Bonds	LT	-	-	-	1)CARE AA-; Negative (15-Oct-20)	-	-
6	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AA+; Negative (15-Oct-20)	-	-
7	Bonds-Tier I Bonds	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Negative (15-Oct-20)	-	-
8	Bonds	LT	-	-	-	1)CARE AA+; Negative (15-Oct-20)	-	-
9	Bonds-Tier I Bonds	LT	-	-	-	1)CARE AA-; Negative (15-Oct-20)	-	-
10	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AA+; Negative (15-Oct-20)	-	-
11	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AA+; Negative (15-Oct-20)	-	-
12	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Negative	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						(15-Oct-20)		
13	Certificate Of Deposit	ST	-	-	-	1)CARE A1+ (31-Dec-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Lower Tier II	Complex
2.	Bonds-Tier I Bonds	Highly Complex
3.	Bonds-Tier II Bonds	Complex

Annexure-5: Bank Lender Details for this Company - NA

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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