Union Bank of India

September 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds[&]	2,200.00	CARE AAA; Stable	Revised from CARE AA+; Positive
Tier-I Bonds[#]	1,000.00	CARE AA+; Stable	Revised from CARE AA; Positive

Details of instruments in Annexure-1.

[&]Tier-II Bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The 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 (CET I) capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable.

[#]CARE Ratings Limited (CARE Ratings) has rated the aforementioned Basel-III Compliant Additional Tier-I Bonds after taking into consideration the following key features:

- The bank has full discretion, at all times, to cancel the coupon payments. The coupon is to be paid out of the current year's profits. However, if the current year's profits are not sufficient, ie, payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of the 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 CET I, Tier-I and total capital ratios and capital buffer frameworks as prescribed by the RBI.
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, 6.125% on and after March 31, 2019, and 7% on or after October 01, 2021, or written-off/converted into common equity shares on the occurrence of the trigger event called PONV. The PONV trigger will be determined by the RBI.

Any delay in the payment of interest or principal (as the case may be) due to invocation of any of the features mentioned above will constitute an event of default as per CARE Ratings' definition of default, and as such these instruments may exhibit somewhat sharper migration of the rating compared with other subordinated debt instruments

Rationale and key rating drivers

The revision in the ratings assigned to debt instruments of Union Bank of India (UBI) factors in sustained improvement in asset quality parameters and profitability during FY23 and Q1FY24. The bank has seen reduction in incremental slippages which along with expected recoveries from non-performing assets (NPAs), is expected to further improve the asset quality- parameters leading to lower credit cost and resultant improvement in profitability, going forward. The ratings also take note of the strengthening of the capitalisation levels post the qualified institutional placement (QIP) of equity shares of ₹5,000 crore in the month of August 2023, which has boosted the bank's the ability to fund its near term credit growth.

The ratings continue to factor in the majority ownership and the continued & expected support by the Government of India (GoI), the bank's market position in the Indian banking sector being the fifth-largest public sector bank (PSB) in terms of total business (advances and deposits), its strong and established franchise through its PAN-India branch network which helps it to garner low-cost and stable Current Account Savings Account (CASA) deposit base; however, the proportion of CASA deposits continue to remain lower compared to larger PSBs. Although the asset quality parameters have seen improvement over the last two years, they continue to remain moderate as compared to peer large PSBs. Moreover, CARE Ratings expects the bank's asset quality parameters to improve in the near term which would improve its earnings profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could lead to positive rating action/upgrade:

- Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in government support and ownership below 51%.
- Deterioration in the asset quality parameters with net NPA to net worth ratio of over 30% on a sustained basis
- Decline in profitability on a sustained basis.
- Moderation in capitalisation cushion levels of less than 1% over and above the minimum regulatory requirement.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach

The ratings are based on the standalone profile of the bank and factor in the strong and continued support from the GoI, which holds the majority shareholding in the bank.

Outlook: Stable

The 'stable' outlook reflects CARE Ratings' expectation that UBI will continue to maintain its steady growth in advances, deposits, and a healthy profitability profile over the medium term while maintaining stable asset quality.

Detailed description of the key rating drivers

Key strengths

Majority ownership and expected continued support from the GoI

GoI continues to be the majority shareholder holding 76.99% stake in UBI as on August 25, 2023, which has been brought down post QIP in August 2023 from 83.49% as on June 30, 2023. UBI has time until August 2024 to bring GoI's stake to below 75%. GoI has been supporting PSBs with regular capital infusions and steps to improve capitalisation, operational efficiency and asset quality. Given the majority ownership of GOI and its systemic importance being one of the largest PSBs in the domestic banking system, CARE Ratings expects the bank to receive timely adequate capital and operational support from GOI as and when required and considers it to remain a key rating sensitivity.

Long track record of operations with an established franchise with balanced advances growth

UBI has a long and established operational track record of more than a century and is fifth-largest nationalised bank in terms of total assets and business (advances + deposits). Post the amalgamation of the erstwhile Corporation Bank and Andhra Bank with UBI with effect from April 01, 2020, the pan-India geographical presence of UBI increased substantially, thereby furthering its strong franchise with a network of 8,561 branches (including 3 foreign), 10,195 ATMs, over 75,300 employees and catering to a customer base of over 21.67 crore throughout the country as on as on June 30, 2023.

UBI's gross advances stood at ₹8,18,457 crore as on June 30, 2023 (March 31, 2023: ₹8,09,905 crore, March 31, 2022: ₹716,408 crore), registering a growth of 12.33% y-o-y. Retail, agriculture and micro, small and medium enterprises - MSME (RAM) segment grew by 14.92%, whereas corporate segment grew comparatively slower at 9.40%. Retail segment alone rose by 16.47.% whereas agriculture and MSME reported growth of 13.37% and 14.88%, respectively. The wholesale proportion stood at 46% of gross advances as on June 30, 2023 (March 31, 2022: 46%, March 31, 2022: 47%). The bank would continue to focus on RAM segment and proportion of RAM may not alter materially from the current levels.

Comfortable capitalisation levels supported by recent QIP

The bank has seen steady improvement in its capitalisation levels supported by capital raise through the QIP (non-government) route of ₹1,447 crore during May, 2021 and the latest QIP of ₹5,000 crore in August, 2023 which led to reduction of the GoI's stake from 89.07% to 83.49% and finally to 76.99% post the last QIP. The bank also issued Additional Tier-I (AT-I) capital bonds of ₹1,983 crore and Tier-II bonds of ₹2,200 crore during FY23. The capital raise is also helped by healthy internal accruals. The capital adequacy ratio (CAR) stood at 15.95% with Tier-I CAR of 13.86% and CET I Ratio of 12.34% as on June 30, 2023 (March 31, 2023: 16.04%, 13.91% and 12.36%, respectively). The second QIP is expected to improve CET I ratio by 80 bps. CARE Ratings notes that the Bank has received board approval for raising capital of ₹10,100 crore during the year of which ₹8,000 crore to be raised by QIP (if the market is conducive) and ₹2,100 crore through issuance of Tier-II bonds or AT I bonds. The bank has time until August 2024 to bring the Government shareholding to below 75%. CARE Ratings expects UBI to maintain capitalisation similar to peer group and maintain sufficient cushion over the minimum regulatory requirement.

Improvement in profitability

The interest income increased by 19% in FY23 due to 13% growth in the advances book combined with the rise in advance yields due to systemic interest rate hikes. The non-interest income increased by 17% y-o-y due to higher recovery from written-off accounts which more than offset the lower treasury income in FY23. The total income of the bank stood at ₹95,376 crore in FY23 as compared with ₹80,469 crore in FY22, registering a growth of 19%. Interest expenses also grew by 19% YoY, due to increased proportion of bulk deposit growth and increased borrowings. The yields-on-advances improved in FY23 due to a significant rise in interest rates, whereas the bank was able to control the rise in the cost of deposits, resulting in the net interest income (NII) to grow by 18% to ₹32,765 crore in FY23 as against ₹27,786 crore in FY22. The net interest margin (NIM) expanded to 2.69% for FY23 vis-à-vis 2.50% for FY22; however, as the bank has raised its deposit rates, the NIM is expected to moderate in FY24.

The cost to income ratio of the bank has slightly deteriorated due to bank spending on improving the digital capability; however, the bank expects to maintain the operating expenses through cost rationalisation measures. The pre-provisioning operating profit (PPOP) increased by 16% to ₹25,467 crore for FY23 from ₹21,873 crore for FY22. The credit cost (provisions and write-offs/average assets) reduced marginally from 1.20% in FY22 to 1.09% in FY23 due to an improvement in the environment and asset quality. The net profit of UBI has expanded to ₹8,433 crore in FY23 as against ₹5,232 crore, resulting in the return on total assets (ROTA) improving from 0.47% in FY22 to 0.69% in FY23.
UBI reported a net profit of ₹3,236 crore for Q1FY24 on a total income of ₹27,381 crore as against a net profit of ₹1,558 crore on a total income of ₹20,991 crore for the corresponding quarter the previous year. The improvement in the total income was on account of the rise in interest income due to advances book growth. UBI reported a ROTA of 1.02% (annualised) for Q1FY24 vs. 0.54% for Q1FY23. CARE Ratings expects UBI to post healthy profitability for FY24.

Key weaknesses

Improvement in asset quality; albeit remains moderate

The bank has seen improvement in its asset quality parameters with reduction in gross NPAs (GNPA) and net NPAs (NNPA) over the years due to lower slippages, write-offs and recoveries. The bank has written-off NPAs of ₹57,599 crore and recoveries of ₹19,486 crore during last three years (FY21 to Q1FY24) as against fresh slippages of ₹56,079 crore during the same period. The GNPA and NNPA improved to 7.34% and 1.58% as on June 30, 2023 (March 31, 2023: 7.53% and 1.70%) as against highs of 13.74% and 4.62% as on March 31, 2021 (March 31, 2022: 11.11% and 3.68%), which continues to be still high compared to its peer banks. The slippage ratio (on net opening advances) improved to 1.97% for FY23 and 1.73% for Q1FY24 as against 4.06% for FY22 and 3.07% for FY21. The bank has seen reduction in slippages in the Corporate, MSME and Retail segment whereas agriculture continued to be high during FY23 and for Q1FY24, corporate and retail slippages have been high. UBI continues to maintain sufficient provision coverage ratio (PCR) excluding technically written-off (TWO) accounts at 79.80% (PCR including TWO at 90.86%) as on June 30, 2023.

The bank has been focusing on recoveries from NPA and taken measures to improve its underwriting processes and standards which have helped the bank to reduce incremental slippages. The bank expects to recover around ₹16,000 crore during FY24 and has recovered ₹3,564 crore during Q1FY24.
The standard restructured assets have reduced from 3.46% of gross advances as on March 31, 2022 to 2.00% as on June 30, 2023 (March 31, 2023: 2.27%). Net stressed assets to net worth have also declined from 96.32% as on March 31, 2022 to 45.16% as on June 30, 2023 (March 31, 2023: 52.95%), respectively. Furthermore, the SMA accounts (0,1 and 2) have reduced significantly from around 4.5% gross advances as on March 31, 2022 to around 0.6% as on June 30, 2023 thereby reducing the potential slippages.
Going forward, as per the management guidance, CARE Ratings notes that the bank expects the recoveries to be more than the slippages with assets quality parameters to improve from the current levels with GNPA of below 6% by March 2024. Therefore, the ability of the bank to contain its slippages will key rating monitorable.

Relatively low CASA share

The total deposit of UBI grew at 8.26% y-o-y as on March 31, 2023 (June 30, 2023: 13.63% y-o-y), whereas the current account and savings account (CASA) deposits grew slower at 4.47% over the previous year as on March 31, 2023 (June 30, 2023: 7.17% y-o-y). As a result, the CASA ratio fell to 35.26% as on March 31, 2023 (June 30, 2023: 34.14%) as compared to 36.54% as on March 31, 2022. UBI's CASA share remains relatively low as compared to peer large PSBs. The share of bulk deposits increased during FY23 to 39% of the total term deposits as on March 31, 2023 (41% as on June 30, 2023) as against 32% as on March 31, 2022.
UBI is investing into building and improve its digital capability to bring them at par with private peers in terms of technology which management believe would also result in improving the CASA, going forward, although it would take some years for it to start having material impact to the deposits. The growth in CASA deposits was muted during FY23, which was in line with the industry trend on account of higher interest rate differential between CASA deposits and term deposits, and CARE Ratings expects this to continue even for FY24. The improvement in the deposit profile with growth in the CASA ratio remains a key monitorable.

Liquidity: Strong

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. According to the structural liquidity statement as on June 30, 2023, there were no negative cumulative mismatches in the time buckets up to 12 months. The liquidity coverage ratio and net stable funding ratio (NSFR) as on June 30, 2023, stood at 166.16% and 141.61%, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹83,606 crore (7.34%) as on June 30, 2023, which provides a liquidity buffer, and the bank can borrow against it in case of any liquidity requirement during contingency. The bank also manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. Furthermore, the bank has access to systemic liquidity like the RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with access to refinancing from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), the National Bank For Agriculture And Rural Development (NABARD), etc, and access to call money markets.

Environment, social, and governance (ESG)

- The bank is taking various steps towards ESG like inclusion of lending to renewable energy sector, created sustainable development and business responsibility policy, financing for women and business population belonging to lower strata of society, and so on.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Public Sector Bank

About the company and industry

Union Bank of India (UBI), established in 1919, is one of the largest public sector banks (PSBs) in India in terms of total business and total assets after amalgamation of Andhra Bank and Corporation Bank with itself effective from April 1, 2020. UBI has PAN-India network of 8,561 branches (including foreign) and 10,195 ATMs catering to a customer base of over 21.67 crore throughout the country as on June 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total income	80,469	95,376	27,381
PAT	5,232	8,433	3,236
Total assets	1,170,305	1,265,775	1,271,115
Net NPA (%)	3.68	1.70	1.58
ROTA (%)	0.47	0.69	1.02

A: Audited; UA: Unaudited. All analytical ratios are as per CARE Ratings' calculations
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

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

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tier-II Bonds (Basel III)	INE692A08219	29-Nov-22	7.85%	29-Nov-37	1,500	CARE AAA; Stable
Tier-II Bonds (Basel III)	INE692A08201	29-Nov-22	7.80%	29-Nov-32	700	CARE AAA; Stable
Tier-I Bonds (Basel III)	INE692A08029	15-Sep-16	9.50%	Perpetual (call option after 10 years)	1,000	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Upper Tier-II	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA; Negative (07-Oct-20)
2	Bonds-Lower Tier-II	LT	-	-	1)Withdrawn (17-Apr-23)	1)CARE AA+; Positive (22-Sep-22)	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Negative (07-Oct-20)
3	Bonds-Perpetual bonds	LT	1000.00	CARE AA+; Stable	-	1)CARE AA; Positive (22-Sep-22)	1)CARE AA; Stable (29-Nov-21) 2)CARE AA; Stable (24-Nov-21) 3)CARE AA-; Stable (06-Oct-21)	1)CARE AA-; Negative (07-Oct-20)
4	Bonds-Tier-I Bonds	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA-; Negative (15-Oct-20)
5	Bonds-Tier-II Bonds	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)
6	Bonds-Tier-I Bonds	LT	-	-	1)Withdrawn (17-Apr-23)	1)CARE AA; Positive	1)CARE AA; Stable (29-Nov-21)	1)CARE AA-; Negative

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
						(22-Sep-22)	2)CARE AA; Stable (24-Nov-21) 3)CARE AA-; Stable (06-Oct-21)	(15-Oct-20)
7	Bonds	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)
8	Bonds-Tier-I Bonds	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA-; Negative (15-Oct-20)
9	Bonds-Tier-II Bonds	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)
10	Bonds-Tier-II Bonds	LT	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)
11	Bonds-Tier-II Bonds	LT	-	-	1)Withdrawn (17-Apr-23)	1)CARE AA+; Positive (22-Sep-22)	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)
12	Certificate Of deposit	ST	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A1+ (31-Dec-20)
13	Bonds-Tier-II Bonds	LT	2200.00	CARE AAA; Stable	-	1)CARE AA+; Positive (22-Sep-22)	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments

Additional Tier-I Bonds	Detailed Explanation
Covenants	

Additional Tier-I Bonds	Detailed Explanation
Call option	After five years/10 years
Write-down trigger	There are two types of write-down triggers: 1. A 'Trigger Event' means that the Bank's CET-1 Ratio is: (i) if calculated at any time prior to October 01, 2021, at or below 6.125%; or (ii) if calculated at any time from and including October 1, 2021, at or below 7% (the "CET-1 Trigger Event Threshold") 2. PONV Trigger, in respect of the bank, means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	In case of pre-specified trigger – permanent or temporary. In case of PONV Trigger – only permanent.
If temporary write-down, description of write-up mechanism	The instrument may be written-up (increase) back to its original value in future, depending upon the conditions prescribed in the terms and conditions of the instrument.

Tier-II Bonds (Basel-III)	Detailed Explanation
Covenants	
Call option	NA
Write-down trigger	The PONV trigger, in respect of the bank means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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