Union Bank of India

September 19, 2024

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

Details of instruments/facilities 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, 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 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 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

Reaffirmation in ratings assigned to debt instruments of Union Bank of India (UBI) factors in majority ownership and the continued and expected support from 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 and diversified advances profile.

The rating further factor in sustained improvement in capitalisation supported by internal accruals and equity capital raise of ₹8,000 crore in FY24, improvement in asset quality parameters and improvement in earnings profile and profitability. Ratings continue to factor in the majority ownership and the continued and expected support by the 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 in the last three 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.

Although the bank has a stable depositor base, UBI's proportion of CASA deposit base remains lower compared to larger PSBs. The asset quality parameters have seen improvement in the last three years, they continue to remain moderate as compared to large peer PSBs. 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

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

Positive factors

- Not applicable

Negative factors

- 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.

Analytical approach: Standalone

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 key rating drivers:

Key strengths

Majority ownership and expected continued support from the GoI

GoI continues to be the majority shareholder holding 74.76% in UBI as on June 30, 2024. The GOI shareholding decreased from 83.49% as on June 30, 2023, as the bank completed two rounds of qualified institutional placement (QIP) of equity shares to raise equity capital in FY24. The bank raised equity capital of ₹5,000 crore in August 2023 and ₹3,000 crore in February 2024. With GOI's shareholding below 75%, UBI has complied with the regulatory requirement on public shareholding.

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. As on June 30, 2024, the bank had strong franchise with a network of 8,473 branches (including two foreign), 9,342 ATMs, over 75,200 employees and catering to a customer base of over 21 crore throughout the country.

UBI's gross advances stood at ₹912,214 crore as on June 30, 2024 (₹818,457 crore as on June 30, 2023 and ₹9,04,884 crore as on March 31, 2024), registering a growth of 11.46% (y-o-y). The bank has been focusing on the retail, agriculture and micro, small and medium enterprises - MSME (RAM) segment, which grew by 14.53% (y-o-y), which constituted 56% of advances while corporate and overseas advances constituted 44% of advances as on June 30, 2024. The bank would continue to focus on RAM segment and proportion of RAM may not alter materially from 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 in May 2021 and in FY24, it raised ₹8,000 crore in FY24. The bank also issued Additional Tier-I (AT-I) capital bonds of ₹1,983 crore and Tier-II bonds of ₹2,200 crore in FY23, while there was no bond issued in FY24. The capital raise is also helped by healthy internal accruals. UBI reported capital adequacy ratio (CAR) of 16.97% with Tier-I CAR of 15.00% and CET I Ratio of 13.65% as on March 31, 2024, as compared to CAR of 16.04% with Tier-I CAR of 13.91% and CET I Ratio of 12.36% as on March 31, 2023. As on June 30, 2024, the bank continued to maintain comfortable capitalisation levels with CAR of 17.02% and CET I Ratio of 13.81%. CARE Ratings expects UBI to maintain capitalisation similar to peer group and maintain sufficient cushion over the minimum regulatory requirement.

Improvement in profitability

In FY24, the bank's net interest income (NII) grew by 12% to ₹36,570 crore in FY24 as against ₹32,765 crore in FY23 supported by 24% increase in interest income due to increase in yield on advances, while interest expenses increased by 32% on the back of rising interest rate scenario and higher cost of deposits. The bank was able to maintain its net interest margin (NIM) at 2.76% as compared to 2.69% for FY23.

The non-interest income increased by 10% y-o-y due to higher fee-based income and treasury income in FY24. The bank's total income stood at ₹115,858 crore in FY24 as compared to ₹95,376 crore in FY23, registering a growth of 21%.

The bank had initiated cost rationalisation measured in FY24, enabling it to control the operating cost despite increase in employee cost due to wage revision and provision for pension liabilities. The bank's cost to income ratio increased to 46.42% in FY24 from 46.27% in FY23.
The bank's pre-provisioning operating profit (PPOP) increased by 11% to ₹28,211 crore for FY24 from ₹25,467 crore for FY23. The credit cost (provisions and write-offs/average assets) reduced from 1.09% in FY23 to 0.51% in FY24 due to an improvement in the overall environment and lower slippages. The bank reported net profit of ₹13,648 crore in FY24 as against ₹8,433 crore, resulting in the return on total assets (ROTA) improving from 0.69% in FY23 to 1.03% in FY24.
In Q1FY25, UBI reported a net profit of ₹3,679 crore on a total income of ₹30,874 crore in Q1FY25 as compared to ₹3,236 crore on a total income of ₹27,381 crore in Q1FY24. The annualised ROTA for Q1FY25 was at 1.10% (Q1FY24: 1.07%).

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) over last three years with lower incremental slippages, write-offs, and recoveries. The bank has been making provisions resulting in reduction in NNPAs as well. In FY24, the bank's slippage ratio declined to 1.59% and further to 1.08% for Q1FY25 as compared to 1.97% for FY23. The bank's GNPA ratio stood at 4.76% and NNPA ratio stood at 1.03% as on March 31, 2024. The bank's GNPA and NNPA ratios improved to 4.54% and 0.90%, respectively, as on June 30, 2024, as compared to 7.53% and 1.70% as on March 31, 2023.

The bank's NNPA to net worth ratio stood at 10.29% (P.Y.: 20.40%) as on March 31, 2024. Although the bank has seen reduction in slippages, the agriculture and MSME segments continued to remain higher compared to retail and corporate advances in FY24. UBI continues to maintain sufficient provision coverage ratio (PCR) excluding technically written-off (TWO) accounts at 79.81% (PCR including TWO at 93.49%) as on June 30, 2024. The bank's net stressed assets (NNPA + Net Standard Restructured Advances + Net Security Receipts) stood at 2.9% of advances as on March 31, 2024 (P.Y.: 3.9%).

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. CARE Ratings notes that the bank has been able to improve its asset quality parameters and maintaining them in line with peer banks is a key rating monitorable.

Relatively low CASA share

Although the bank has an established franchise, its proportion of CASA deposits to total deposits is lower compared to peer public sector banks. In FY24, UBI's total deposit grew at 9.3% in FY24, whereas its CASA deposits grew at ~4% due to shift of depositors to term deposits and other investment avenues in a rising interest rate scenario. The bank's CASA deposit constituted 33.58% as on March 31, 2024 as compared to 35.26% as on March 31, 2023.

UBI is investing in building and improving its digital capability to align with private peers in technology. The management believes this would improve CASA, though it may take some years before having material impact on deposits.

As on June 30, 2024, the bank's CASA deposit proportion stood at 32.63%. The share of bulk deposits stood at around 28% while 72% of deposits constituted CASA and retail term deposits as on June 30, 2024. Though garnering low-cost deposits remains a challenge for banks in general, improvement in the deposit profile with growth in the CASA ratio would help UBI reduce its cost of deposits and improve profitability.

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, 2024, there were no negative cumulative mismatches in the time buckets up to 12 months. The liquidity coverage ratio (Avg.) and net stable funding ratio (NSFR) as on June 30, 2024, stood at 138.45% and 129.83%, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹59,357 crore (5.05%) as on June 30, 2024, which provides a liquidity buffer, and the bank can borrow against it in case of liquidity requirement in contingency. The bank also manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. The bank has access to systemic liquidity such as RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) and access to refinancing from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), and the National Bank For Agriculture And Rural Development (NABARD), among others, and access to call money markets.

Environment, social, and governance (ESG) risks

- UBI has established a comprehensive governance structure to oversee its Environmental, Social, and Governance (ESG) commitments recognising the importance of addressing climate change and promoting sustainable development. This governance structure ensures the bank's environmental strategies are effectively implemented and monitored. Key components of this structure include the Stakeholders Relationship Committee (SRC) and the Risk Management Committee (RMC), both of which play pivotal roles in managing ESG and climate-related risks. The bank has formed ESG Steering Committee (ESGSC), comprising executive directors and heads of business verticals, meets quarterly to guide the Bank's transition towards sustainability. This committee provides recommendations to the Board and ensures that all verticals of the Bank are aligned with the ESG objectives. Its ESG initiatives include 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

Definition of Default
Factoring Linkages Government Support
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks

About company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Public sector bank

Established in 1919, UBI is one of the largest 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 8,473 branches (including two foreign) and 9,342 ATMs catering to a customer base of over 21 crore throughout the country as on June 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	95,376	115,858	30,873
PAT	8,433	13,648	3,678
Total Assets	1,265,775	1,382,378	1,392,918
Net NPA (%)	1.70	1.03	0.90
ROTA (%) *	0.69	1.03	1.10^

A: Audited UA: Unaudited; Note: these are latest available financial results
*^annualised *adjusted for revaluation reserves, deferred tax assets and intangible assets.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds-Perpetual bonds	INE692A08029	15-09-2016	9.50	Perpetual (call option after 10 years)	1000.00	CARE AA+; Stable
Bonds-Tier-II bonds	INE692A08219	29-11-2022	7.85	29-11-2037	1500.00	CARE AAA; Stable
Bonds-Tier-II bonds	INE692A08201	29-11-2022	7.80	29-11-2032	700.00	CARE AAA; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Bonds-Upper Tier-II	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
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)
3	Bonds-Perpetual bonds	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (20-Sep-23)	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)
4	Bonds-Tier-I bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
5	Bonds-Tier-II bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
6	Bonds-Tier-I bonds	LT	-	-	-	1)Withdrawn (17-Apr-23)	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)
7	Bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
8	Bonds-Tier-I bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
9	Bonds-Tier-II bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
10	Bonds-Tier-II bonds	LT	-	-	-	-	-	1)Withdrawn (06-Oct-21)
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)
12	Certificate Of deposit	ST	-	-	-	-	-	1)Withdrawn (06-Oct-21)
13	Bonds-Tier-II bonds	LT	2200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (20-Sep-23)	1)CARE AA+; Positive (22-Sep-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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