Union Bank of India

September 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds[&]	2,200.00	CARE AA+; Positive (Double A Plus; Outlook: Positive)	Assigned
Tier-I Bonds[#]	1,500.00	CARE AA; Positive (Double A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Lower Tier-II	800.00	CARE AA+; Positive (Double A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Tier-II Bonds[&]	1,000.00	CARE AA+; Positive (Double A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total long-term instruments	**5,500.00 (₹ Five thousand five hundred crore only)**		

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. 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 Limited (CARE Ratings) has rated the aforesaid 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 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 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, 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 occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by the RBI.

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

Detailed rationale and key rating drivers

The ratings assigned to the debt instruments of Union Bank of India (UBI) factor in majority ownership, demonstrated and expected continued support from the Government of India (GoI) being its largest shareholder holding 83.49%, its increased systemic importance and position in the Indian banking sector as being the one of the largest public sector bank (PSB) in terms of business (advances and deposits) and asset size post amalgamation of erstwhile Andhra Bank and erstwhile Corporation Bank w.e.f. April 01, 2020. The ratings continue to derive strength from its strong and established franchise through pan-India branch network, which helps it to garner low-cost and stable Current Account Savings Account (CASA) deposit base with

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

comfortable liquidity. The ratings further factor in the improvement in the bank's advances and capitalisation levels in FY22, enhancing its ability to absorb asset quality pressures as well as support growth in the near-term, post equity infusion through QIP (non-government) in FY22 (refers to the period April 01 to March 31) and internal accruals due to improved profitability.

The ratings, however, remain constrained by moderate but improving asset quality parameters.

Rating sensitivities

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

- Improvement in the asset quality parameters with gross non-performing asset (GNPA) reducing below 8.5% on a sustained basis.
- Improvement in capitalisation levels with significant cushion over regulatory requirement.
- Continued improvement in the profitability and capitalisation while improving its asset quality parameters on a sustained basis.

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

- Reduction in government support and ownership below 51%.
- Decline in the asset quality parameters with GNPA exceeding 12% or NNPA ratio of over 4% on a sustained basis.
- Decline in profit for a sustained basis leading to deterioration in capitalisation levels below 12.5%.

Outlook: Positive

Positive. The Positive outlook reflects CARE Ratings' expectation of continued improvement in profitability and asset quality parameters in the medium term along with comfortable capitalisation by the bank.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Majority ownership and expected continued support from by Government of India: The Government of India (GOI) continues to be the majority shareholder holding 83.49% stake in UBI as on June 30, 2022. 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, UBI is expected to receive timely and adequate support in the form of capital as and when required.
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.
Furthermore, considering the significance of the bank being one of the large PSBs, considering the majority shareholding, timely and regular support from GOI to maintain the capitalisation is expected and would remain a key rating sensitivity.

Long track record of operations and position as one of the largest PSBs in India with an established franchise and stable deposit profile: UBI has a long and established operational track record of more than a century, and is one of the largest nationalised banks in terms of assets, business and outreach. Post the amalgamation of Corporation Bank and Andhra Bank with UBI with effect from April 01, 2020, the PAN India geographical presence of UBI has risen substantially, thereby furthering its existing strong franchise with a network of 8,729 branches (including three overseas branches) and 11,154 ATMs catering to a customer base of over 13.5 crore throughout the country as on June 30, 2022. The low-cost CASA of UBI registered a growth of 12.40% Y-O-Y as on March 31, 2022 (June 30, 2022: 8.69% YOY), whereas the total deposits grew by 11.75% Y-O-Y as on March 31, 2022 (June 30, 2022: 9.27% YOY) faster than the growth in advances for FY22. The term deposits grew by 11.39% during the same period; however, almost all of the growth was contributed by bulk deposits over ₹1 crore. Although there has been a marginal improvement in the share of CASA deposits to the total deposits which grew from 36.33% as on March 31, 2021 to 36.54% as on March 31, 2022 (June 30, 2022: 36.19%), it remains relatively low as compared to an average of large PSBs, which is around 40%.

Wholesale contributed advance growth: The gross advances stood at ₹716,408 crore as on March 31, 2022 (₹728,635 crore as on June 30, 2022) registering growth of around 9.6% during FY22 as compared with de-growth of 1.87% during the previous year. Corporate segment (including overseas credit) grew around 16.16%, whereas the Retail, Agriculture and MSME (RAM) grew by a moderate 4.49% as the bank deliberately went slow in disbursements as these segments were reeling under the impact of the second wave of COVID-19. As a result, the wholesale proportion increased to 46% of gross advances as on March 31, 2022 (June 30, 2022 – 47%) as compared with 44% as on March 31, 2021. Retail and Agriculture contributed 19% each, whereas MSME's proportion stood at 16% as on June 30, 2022. Housing loans was the largest in retail loans comprising 53% of the retail loan book followed by auto loans at 10% and mortgage loans at 9% as on June 30, 2022.

Improvement in capitalisation levels: The bank has seen steady improvement in its capitalisation levels post its amalgamation with Corporation Bank and Andhra Bank. The bank raised equity capital of ₹1,447 crore during FY22 through the QIP (non-government) route, which led to reduction of the GoI's stake from 89.07% to 83.49%. The Bank also issued Additional Tier-I (AT-I) capital bonds of ₹5,000 crore and Tier-II bonds of ₹2,000 crore backed by healthy internal accruals during FY22, helped improvement in the capital adequacy ratio (CAR), which stood at 14.52% with Tier-I CAR of 12.20% and CET I Ratio of 10.63% as on March 31, 2022 (June 30, 2022: 14.42%, 12.14% and 10.68%, respectively) improving the cushion over the minimum regulatory requirement. CARE Ratings notes that the Bank has received board approval for raising capital of ₹8,100 crore during the year of which ₹3,800 crore will be raised by QIP (if the market is conducive), which might bring down the government stake to at least 75% and ₹4,300 crore through issuance of Tier-II bonds or AT I bonds, which would help the bank maintain cushion over the regulatory requirement as well as support growth. The bank plans to maintain CET I Ratio above 11% and CAR at 14%.

Improvement in profitability: During FY22, UBI saw 9.60% growth in advances largely driven by increase in wholesale lending, which constituted 46% of the total advances as on March 31, 2022. The bank's net interest margin (NIM) improved at 2.50% for FY22 against 2.41% for the previous year due to higher fall in cost of deposit as compared to fall in the yields in a decreasing interest rate scenario except for the last quarter for FY22 when the interest rates started rising. The bank's non-interest income improved during FY22 compared with the previous year due to higher core fee income and higher recovery despite reduction in treasury income. However, supported by net interest income (NII), the UBI's pre-provisions operating profit (PPOP) improved from ₹19,667 for FY21 to ₹21,873 crore for FY22. Due to improving asset quality, credit cost reduced to 1.20% from 1.63% in FY21 resulting in PBT to improve in FY22 over the previous year. The bank reported PAT of ₹2,906 crore which improved significantly to ₹5,232 crore for FY22 translating into return of total assets (ROTA) of 0.47% in FY22 as against 0.28% in FY21. UBI reported a net profit of ₹1,558 crore for the Q1FY23 on a total income of ₹20,991 crore as against a net profit of ₹1,180 crore on a total income of ₹19,914 crore for the corresponding quarter the previous year Q1FY22. The improvement is on account of higher net interest income.
Going forward, the profitability would not improve materially over the current levels due to moderation of treasury gains despite potential reduction in credit cost as the asset quality improves.
UBI had set-off the entire accumulated losses against the Share Premium Account during FY21 and has reported improved profits for FY22, which has improved the distributable reserves position of the bank.

Key rating weaknesses

Moderate asset quality: UBI's asset quality parameters have improved but remain at moderate levels with GNPA of 11.11% as on March 31, 2022 (June 30, 2022: 10.22%) as compared with 13.74% as on March 31, 2021. The moderation in GNPA was majorly on account of higher upgradations and write-offs despite increase in slippages during FY22 as compared with previous year due to the impact of second wave of COVID-19. The slippage ratio (on net opening advances) worsened to 4.06% in FY22 from 3.07% in FY21. Segment-wise slippages from corporate, MSME and agriculture was higher as compared to retail during FY22 and Q1FY23. Overall, MSME had the highest NPA at 17.62% followed by agriculture with 11.85%, corporates at 9.85% and retail at 3.46% as on June 30, 2022. UBI kept provisions excluding TWO (technical written off) of around 70% on Gross NPA as on June 30, 2022. The bank has been focusing on recoveries from NPA accounts.
The bank's Net NPA (NNPA) ratio and NNPA to net worth ratio improved to 3.68% and 45.61% as on March 31, 2022 from 4.62% and 62.56 as on March 31, 2021, respectively (June 30, 2022: 3.31% and 40.25%).

Liquidity: Adequate

According to the Structural Liquidity Statement as on June 30, 2022, there were no negative cumulative mismatches in time buckets up to 6 months. The liquidity coverage ratio as on June 30, 2022, stood at 177.23%, as against the minimum regulatory requirement of 100%. The bank also had excess SLR of ₹75,755 crore (8.78%) as on June 30, 2022, which provides 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 RBI's LAF and MSF facilities along with access to refinance from SIDBI, NHB, NABARD, etc, and access to call money markets.

Analytical approach

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

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank
Rating Methodology: Notching by factoring linkages with Government

About the bank

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 8,729 branches, 11,154 ATMs, an employee base of over 75,000+, and a customer base of over 135 million as on June 30, 2022. The operations of the bank are headed by A. Manimekhalai, who took over as Managing Director & Chief Executive Officer (MD & CEO) of the bank w.e.f. June 03, 2022. Government of India (GOI) is the majority shareholder holding 83.49% stake as on June 30, 2022 (83.49% as on March 31, 2022). 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 three joint ventures and one associate as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total income	80,512	80,469	20,991
PAT	2,096	5,232	1,558
Total assets	10,50,840	11,70,305	11,56,980
Net NPA (%)	4.62	3.68	3.31
ROTA (%)	0.28	0.47	0.54

A: Audited; UA: Unaudited
Note: All analytical ratios are as per CARE Ratings' calculations

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of 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
Lower Tier-II Bonds (Basel-II)	INE692A09241	28-Dec-12	8.90%	28-Dec-22	800	CARE AA+; Positive
Additional Tier-I Bonds (Basel-III)	INE692A08029	15-Sep-16	9.50%	Perpetual (call option after 10 years)	1,000	CARE AA; Positive
Additional Tier-I Bonds (Basel-III)#	INE434A08083	31-Oct-17	9.20%	Perpetual (call option after 5 years)	500	CARE AA; Positive
Tier-II Bonds (Basel-III)#	INE434A08075	24-Oct-17	7.98%	24-Oct-27 (call option after 5 years)	1,000	CARE AA+; Positive
Tier-II Bonds (Basel-III)	Proposed				2,200	CARE AA+; Positive

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

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
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)
2	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA; Negative (07-Oct-20)	1)CARE AA (CWD) (07-Jan-20) 2)CARE AA (CWD) (11-Sep-19)
3	Bonds-Lower Tier II	LT	800.00	CARE AA+; Positive	-	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Negative (07-Oct-20)	1)CARE AA+ (CWD) (07-Jan-20) 2)CARE AA+ (CWD) (11-Sep-19)
4	Bonds-Perpetual Bonds	LT	1000.00	CARE AA; Positive	-	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)	1)CARE AA- (CWD) (07-Jan-20) 2)CARE AA- (CWD) (11-Sep-19)
5	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA-; Negative (15-Oct-20)	-
6	Bonds-Tier II Bonds	LT	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)	-
7	Bonds-Tier I Bonds	LT	500.00	CARE AA; Positive	-	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 (15-Oct-20)	-
8	Bonds	LT	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+;	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
							Negative (15-Oct-20)	
9	Bonds-Tier I 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 (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)	-
12	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Positive	-	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Negative (15-Oct-20)	-
13	Certificate Of Deposit	ST	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A1+ (31-Dec-20)	-
14	Bonds-Tier II Bonds	LT	2200.00	CARE AA+; Positive				

*Long term/Short term.

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

Additional Tier-I Bonds	Detailed explanation
Covenants	
Call option	After five years/ ten 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	After five years
Write-down trigger	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 various instruments rated for this company

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

Annexure-5: Bank lender details for this company – Not applicable

Note on 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:
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per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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