Union Bank of India

November 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Perpetual Bonds	2,500.00*	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Lower Tier II	800.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Tier II Bonds	1,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**4,300.00 (Rs. Four Thousand Three Hundred Crore Only)**		

Details of instruments in Annexure-1
**(includes AT1 Bonds of Rs.1,000 crore already redeemed but not yet withdrawn by CARE)*

&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 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.

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

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.

As per CARE Ratings (CARE) criteria for rating of hybrid instruments issued by banks, CARE has been notching down the Additional Tier I (AT I) Bonds issued by the banks by one to several notches below the Tier II Bond rating depending on the expected adequacy of eligible reserves, cushion over minimum regulatory capital and other credit risk assessment parameters of the individual bank to factor in the additional risk in these instruments on account of several unique features of these instruments including loss absorption features and coupon discretion clause which make them very different from other types of debt instruments.
For public sector banks (PSB), the current ratings factor in government support. The restriction on coupon payment in the event of loss or through distributable reserve may pose challenge in coupon servicing for weaker banks. However, in the past, the Government of India (GoI), as the majority shareholder, has provided support to PSBs in terms of capital infusion on need basis to not only make the coupon payments but also to call back the bonds.
Apart from capital support, PSBs have received support from GoI and the regulator in terms of allowing accumulated losses to be set-off against the share premium account which has increased the quantum of distributable reserves available to service the AT I Bonds. GoI also has initiated consolidation of the sector by amalgamation of relatively weaker and smaller banks into larger banks which has seen strengthening of balance sheets of the PSBs.
CARE further expects that GoI would provide capital support to PSBs on need basis so that covenants for coupon payment is not breached in future.
In this background, CARE has revised the ratings of AT I Bond issues of UBI, considering the strengthening in overall credit profile of the bank as reflected in improvement in profitability, capital adequacy levels and asset quality parameters of amalgamated bank during the period from March 31, 2019 to September 30, 2021. Further, UBI has witnessed significant increase in distributable reserves and capital cushion over minimum regulatory requirement during this period. The bank's total capital adequacy ratio (CAR) improved and stood at 13.64% with Common Equity Tier (CET) I ratio of 10.16% as on September 30, 2021 as against 12.56% (CET I Ratio: 9.07%) as on March 31, 2021 and 12.01% (CET I Ratio: 8.60%) as on April 01, 2020.
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.

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%.

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 September 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 9,277 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 11,677 ATMs as on September 30, 2021.

The low CASA of UBI grew significantly registering a growth of 13.15% as on March 31, 2021 (September 30, 2021: 14.53%) as compared with April 01, 2020 (merged), whereas the total deposits grew by 6.35% as on March 31, 2021 (September 30, 2021: 5.23%) 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 (September 30, 2021: 37.16%), 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 September 30, 2021, constituted around 85% of total deposits (March 31, 2021: 78%) 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 H1FY22, 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.2,000 crore, which helped improvement in CAR which stood at 13.64% with Tier I CAR of 11.32% and CET I Ratio of 10.16% as on September 30, 2021 improving the cushion over the minimum regulatory requirement; 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 (12.64% and 4.61% as on September 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 (53.54% as on September 30, 2021) as compared with 80.39% as on April 01, 2020 (merged).

Segment-wise MSME has the highest NPA at 20.42%, followed by corporates at 13.59% and agriculture at 12.44% as on September 30, 2021. Fresh slippages for H1FY22 were high at Rs.13,794 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 and writeoff during the half year 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 6.81% of gross advances as on September 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 September 30, 2021, the gross advances book was Rs.6,34,583 crore with proportion of wholesale and retail advances marginally changing to 43% and 57%, 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.2,707 crore on a total income of Rs.40,598 crore for the half year ended September 30, 2021 translating into ROTA of 0.52% (annualised) as against a net profit of Rs.849 crore on total income of Rs.40,649 crore for the corresponding half year of the previous year. The improvement was on account of on reduction of interest cost 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 September 30, 2021, with positive cumulative mismatches in all time buckets upto 1 year. The bank's average Liquidity Coverage Ratio (LCR) stood at 174.79% for the quarter ended September 30, 2021. Comfort can be drawn from the excess Statutory Liquidity Ratio (SLR) maintained by UBI at 10.20% of net demand and time liabilities as on September 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: The ratings are based on standalone profile of the bank (merged entity) and continue to factor in strong support from Government of India (GOI) which holds majority shareholding in the bank.

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

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.15,48,605 crore and asset size of Rs.10,42,361 crore as on September 30, 2021 (Rs.15,77,489 crore and Rs.10,50,840 crore, respectively, as on March 31, 2021). Government of India (GOI) is the majority shareholder holding 83.5% stake in merged UBI as on September 30,

2021 (89.07% as on March 31, 2021). As on September 30, 2021, the bank had a network of over 9,277 branches (including three international branches), 11,667 ATMs as on September 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 September 30, 2021.
UBI reported a net profit of Rs.2,707 crore for the quarter ended September 30, 2021, on a total operating income of Rs.40,598 crore.

Brief Financials (Rs. crore)*	FY20 (A) (Unmerged)	FY21 (A) (Merged)	H1FY22 (UA) (Merged)
Total operating income	42,492	80,104	40,598
PAT	-2,898	2,906	2,707
Total Assets	5,40,152	10,50,840	10,42,361
Net NPA (%)	5.49	4.62	4.61
ROTA (%)	-0.56	0.28	0.52

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
Tier I Bonds (Basel III) – Perpetual	INE434A08083	31-Oct-17	9.20%	Perpetual (call option after 5 years)	500	CARE AA; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds – Series IV #						
Tier II Bonds - Series D (Basel III) #	INE434A08075	24-Oct-17	7.98%	24-Oct-27	1,000	CARE AA+; Stable

#Transferred from erstwhile Andhra Bank to Union Bank of India consequent to amalgamation into Union Bank of India (UBI)
*(AT1 Bonds of Rs.1,000 crore already redeemed but not yet withdrawn by CARE)

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)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)	1)CARE AA; Stable (02-Jan-19)
3	Bonds-Lower Tier II	LT	800.00	CARE AA+; Stable	1)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)	1)CARE AA+; Stable (02-Jan-19)
4	Bonds-Perpetual Bonds	LT	2000.00	CARE AA; Stable	1)CARE AA-; Stable (06-Oct-21)	1)CARE AA-; Negative	1)CARE AA- (CWD) (07-Jan-20)	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)	2)CARE AA- (CWD) (11-Sep-19)	(02-Jan-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; Stable	1)CARE AA-; Stable (06-Oct-21)	1)CARE AA-; Negative (15-Oct-20)	-	-
8	Bonds	LT	-	-	1)Withdrawn (06-Oct-21)	1)CARE AA+; 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)	-	-

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
12	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	1)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)	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Available

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

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

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

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