January 22, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO VARIOUS INSTRUMENTS OF UNION BANK OF INDIA

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Remarks
Lower Tier II Bonds (Basel II)	1000* (Reduced from Rs. 1600)	**CARE AAA (Triple A)**	**Reaffirmed**
Upper Tier II Bonds (Basel II)@	1000	**CARE AA+ (Double A Plus)**	**Reaffirmed**
Perpetual Bonds (Basel III)#	2000	**CARE AA (Double A)**	**Reaffirmed**
Total	**4000** **(Rupees Four Thousand crore only)**		

*Rated amount has been reduced due to redemption of Lower Tier II (series VIII-FIXED) bond

@CARE has rated the aforesaid Upper Tier II Bonds one notch lower than the Lower Tier II Bonds in view of their increased sensitiveness to the Union Bank of India's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to conventional subordinated debt instruments.

#CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual 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, coupon may be paid subject to availability of sufficient revenue reserves and/or credit balance in profit and loss account 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's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.

Rating Rationale

The ratings factor in the majority ownership and capital support by the Government of India (GoI), long track record of operations with an extensive branch network, comfortable liquidity profile, average profitability parameters, weak asset quality and moderate capitalization levels. Continued ownership and support from GoI, asset quality, profitability and capital adequacy are the key rating sensitivities.

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

Background

Union Bank of India (UBI), established in 1919, is amongst the top 10 public sector banks in India in terms of asset size. The Bank has an asset base of Rs.3.9 trillion as on September 30, 2015. Government of India owns 63.44% outstanding shares of Union Bank of India as on September 30, 2015. The bank has a pan India presence through a network of 4095 branches and 6909 ATMs as on September 30, 2015. Bank's head office is in Mumbai. The bank has presence in eight overseas territories including three full-fledged branches in Dubai, Antwerp and Hong Kong and four representative offices at Abu Dhabi, Beijing, Shanghai and Sydney. The Bank operates in the UK through its wholly owned subsidiary, Union Bank of India (UK) Ltd. Union Bank of India is headed by Mr. Arun Tiwari who took over as Chairman & Managing Director of the bank from December 26, 2013.

During FY15 (refers to the period April 1 to March 31), Union Bank of India's net advances and deposits base grew by 11.6% and 6.5% respectively. The credit growth was mainly contributed by the retail, agriculture and micro, small & medium enterprises (MSME) sectors while mid & large corporate book remained more or less stagnant. In FY15, the bank reported PAT of Rs.1782 crore (P.Y.: Rs.1696 crore) on total income of Rs.35607 crore (P.Y.: Rs.32171 crore). Marginal improvement in profits is on account of higher advances growth, higher non-interest income & lower provisions. Consequently, Bank's RoTA in FY15 stood at 0.49% (P.Y.: 0.51%). The bank has moderate capitalization levels. Capital adequacy at the end of FY15 as per Basel III stood at 10.22% (P.Y.: 10.80%) & Tier I CAR stood at 7.50% (P.Y.: 7.54%). As on March 31, 2015, GNPA and NNPA ratios increased to 4.96% (P.Y.: 4.08%) and 2.71% (P.Y.:2.33%) respectively with net NPA/ net worth being 37.78% (P.Y.:31.45%).

In H1FY16, PAT grew by 13.7% to Rs.1177 crore as against Rs.1035 crore in H1FY15. Government of India infused equity capital of Rs.1080 crore on September 30, 2015, as a part of its "Indradhanush" scheme. Post equity infusion, Bank's capital adequacy (Basel III) ratio improved marginally to 10.26% as on September 30, 2015. At the end of H1FY16, asset quality has further deteriorated as Gross and Net NPA increased to 6.12% and 3.39%, respectively on account of higher absolute NPAs & de-growth in advances portfolio.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE 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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CIN - L67190MH1993PLC071691