FEBRUARY 13, 2015

CARE ASSIGNS 'CARE AA' RATING TO BASEL III COMPLIANT TIER 1 PERPETUAL BONDS ISSUE OF UNION BANK OF INDIA

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Basel III compliant Tier 1 Perpetual Bonds issue	2000	CARE AA [Double A]	Assigned

CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as 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 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 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 the conventional subordinated debt instruments.

Rating Rationale

The rating factors in majority ownership by Government of India (GoI) (GoI holds 60.47% stake in the bank) as well as expectations of future capital support, adequate capitalization levels and comfortable liquidity profile. The rating further takes into account deterioration in the bank's asset quality parameters and the resultant impact on its profitability. Continued ownership and GoI support, asset quality & profitability are the key rating sensitivities

Background

Union Bank of India, established in 1919, is amongst the top 10 public sector banks in India in terms of asset size. The bank has a pan India presence through a network of 4034 branches and 6618 ATMs as on December 31, 2014. The bank has presence in 8 overseas territories including 3 full-fledged branches in DIFC Dubai, Antwerp, and Hong Kong and 4 representative offices at Abu Dhabi, Beijing, Shanghai and Sydney. The bank also has a wholly owned banking subsidiary in London.

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

During FY14, Union Bank's advances and deposits base grew by 10.1% and 12.9% respectively vis-à-vis industry growth of 14.3% and 14.6% 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. During FY14, the bank reported PAT of Rs.1696 crore [P.Y.: Rs.2158 crore] on total income of Rs.32171 crore [P.Y.: Rs.27677 crore]. Dip in margins, rise in operating costs and credit provisions have together impacted the bank's profitability. Consequently, ROTA declined by 25bps to 0.51%.

During 9M FY15, the bank reported PAT of Rs.1338 crore, up 19.7% y-o-y, on total income of Rs.26223 crore. Rise in profits has been primarily driven by stable margins, rise in other income as well as provision writebacks on investments portfolio.

The bank has adequate capitalisation levels. As on December 31, 2014, its Basel III CAR stood at 10.30% (excluding 9M FY15 profits) [March 2014: 10.80%] along with Tier I CAR at 7.32% [March 2014: 7.54%]. On the asset quality front, the bank has witnessed deterioration over the last few quarters. As on December 31, 2014, GNPA and NNPA ratios weakened to 5.08% [March 2014: 4.08%] and 2.95% [March 2014: 2.33%] respectively with net NPA/ networth being 38.91% [March 2014: 31.45%].

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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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