

DECEMBER 29, 2016

CARE REAFFIRMS RATINGS ASSIGNED TO VARIOUS INSTRUMENTS OF

UNION BANK OF INDIA WITH 'NEGATIVE' OUTLOOK

Ratings

Instrument/Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Lower Tier II Bonds (Basel II)	800	CARE AAA; Negative (Triple A; Outlook: Negative)	Reaffirmed
Upper Tier II Bonds (Basel II)@	1,000	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Reaffirmed
Additional Tier I Bonds (Basel III)#	2,000	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Total	3,800 (Rupees Three Thousand Eight Hundred crore only)		

@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 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 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.

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

Rating Rationale

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

Outlook: Negative

The outlook reflects expectation of continued pressure on asset quality and profitability parameters of the bank going forward. The outlook may be revised to 'Stable' in case of sustainable improvement in bank's asset quality and earning profile.

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 an asset base of over Rs.4.3 trillion as on September 30, 2016. Government of India owns 63.44% outstanding shares of Union Bank of India as on September 30, 2016. The bank has a pan India presence through a network of 4,210 domestic branches and 7,151 ATMs as on September 30, 2016. Bank's head office is in Mumbai.

The bank has presence in eight overseas territories including four full-fledged branches in Dubai, Antwerp, Hong Kong and Sydney and three representative offices at Abu Dhabi, Beijing and Shanghai. 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 FY16, Bank's gross advances base grew by 5.7% (P.Y.: 12.1%). The credit growth was mainly contributed by the retail and agriculture segment while corporate book remained more or less stagnant. In FY16, the bank reported PAT of Rs.1352 crore (P.Y.: Rs. 1782 crore) on total income of Rs.35831 crore (P.Y.: Rs.35607 crore). Bank's profitability was adversely impacted during FY16 on account of higher provisions which stood at Rs.3,877 crore (P.Y.: Rs.3040 crore). Consequently, Bank's RoTA in FY16 reduced to 0.35% (P.Y.: 0.49%). The bank has moderate capitalization levels. Capital adequacy at the end of FY16 as per Basel III stood at 10.56% (P.Y.: 10.22%) & Tier I CAR stood at 8.14% (P.Y.: 7.50%). During FY16, the bank's absolute gross slippages increased by 128.6% over previous year to Rs.12,953 crore while bank's recoveries, up gradation & write offs reduced by 17.6% over previous year to Rs.1,813 crore. Consequently, Bank's GNPA ratio increased to 8.70% as on March 31, 2016 (P.Y.: 4.96%). As on March 31, 2016, Bank's NNPA ratio increased to 5.25% (P.Y.:2.71%) with Net NPA/ Tangible Network at 70.58% (P.Y.:37.78%).

The Bank reported PAT of Rs.343 crore on total income of Rs.18,264 crore in H1FY17 as against PAT of Rs.1,177 crore on total income of Rs.18,144 crore in H1FY16. Reduction in profitability during H1FY17 is on account of high provisioning cost incurred by the bank which stood at Rs.2973 crore in H1FY17 as against Rs.1075 crore in H1FY16. As on September 30, 2016, asset quality further deteriorated with Gross and Net NPA ratios at 10.73% and 6.39% and Net NPA to net worth was at 83.83%. However, standard restructured assets as a percentage of gross advances improved to 2.02% as on September 30, 2016 as against 3.09% as on March 31, 2016. The bank reported CAR (Basel III) of 11.19% with Tier I CAR (Basel III) at 8.56% as on September 30, 2016.

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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.

Disclaimer: CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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CIN - L67190MH1993PLC071691