Union Bank of India

January 02, 2019

Ratings

Instruments	**Amount (Rs. Crore)**	**Rating[1]**	**Rating Action**
Lower Tier II Bonds	800 (Rs. Eight Hundred Crore only)	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Upper Tier II Bonds (Basel II)[@]	1,000 (Rs. One Thousand Crore only)	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Perpetual Bonds (Basel III)[#]	2,000 (Rs. Two Thousand Crore only)	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed

Details of instruments / facilities given in ***Annexure – 1***

@: CARE has rated the aforesaid Upper Tier II Bonds one notch lower than the Lower Tier II Bonds in view of their increased sensitivity 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.

Detailed Rationale and Key Rating drivers

The rating assigned to various debt instruments of Union Bank of India (UBI) takes into consideration majority ownership and demonstrated capital support by Government of India (GoI) in the form of regular equity capital infusion over the last few years.

The rating also takes into consideration the long standing track record of operations and established franchise with an extensive branch network, moderate capitalization levels, comfortable liquidity profile, strong resource profile. The ratings are constrained on account of weak asset quality parameters, moderate profitability parameters and moderate growth in advances.

Continued majority shareholding by GOI and support, asset quality, profitability and capital adequacy are key rating sensitivities.

Detailed description of the key rating drivers:

Key Rating Strengths

Majority ownership by Government of India with demonstrated support

The bank's credit profile derives considerable comfort and factors in expectation of capital support in times of stress from Government of India (GOI), being the majority shareholder in the bank holding 67.42% stake as on September 30, 2018. During FY18 (refers to period from April 01 to March 31), GoI infused equity capital of Rs.4,524 crore in UBI as a part of government's recapitalization plan for public sector banks. Going forward continued support from GOI to meet the minimum regulatory capital requirement as well as support credit growth will remain a key rating sensitivity.

Long standing track record and established franchise

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

Established in 1919, UBI is the 6th largest public sector bank in India in terms of asset size as on March 31, 2018. The bank has a wide network of branches and ATMs across the country. As on September 30, 2018, the bank had 4,303 branches (4,299 domestic branches) and 6,794 ATMs excluding 5,407 Micro – ATMs.
The bank also 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 UK through its wholly owned subsidiary, Union Bank of India (UK) Ltd. The bank has 27 extension counters, 59 satellite offices and 48 service branches in addition to its regular bank branches as of September 30, 2018

Moderate capitalization levels
During FY18, UBI raised equity capital of Rs.6,524 crore (Rs.4,524 crore infused by GoI and Rs.2,000 crore through QIP). In addition, the bank raised Tier I capital through issuance of BASEL III compliant Additional Tier I (AT I) Bonds of Rs.500 crore. The capital raising helped the bank to report Capital Adequacy Ratio (CAR) of 11.50% (P.Y.: 11.79%) [Tier I CAR: 9.07% (P.Y.: 9.02%)] and Common Equity Tier I (CET I) Ratio of 7.60% (P.Y.: 7.71%) as on March 31, 2018. As on September 30, 2018, the bank reported Capital Adequacy Ratio (CAR) of 11.55% (Tier I CAR: 9.02%) and Common Equity Tier I (CET I) Ratio of 7.54%.

Comfortable liquidity profile and stable resources profile
The liquidity position of the bank was comfortable with well-matched ALM profile as on October 31, 2018 with positive cumulative mismatches in all time buckets up to 6 months. In addition, the bank had excess SLR investments of Rs.11,175 crore as on September 30, 2018. The bank's Liquidity Coverage Ratio (LCR) stood at 116.17% as on September 30, 2018 (March 31, 2018: 106.60%).
The bank reported a deposit base of Rs.408,502 crore as on March 31, 2018 as compared to Rs.378,392 crore as on March 31, 2017 (growth of 8%) with CASA proportion of 34.1% as on March 31, 2018 as compared to 34.4% as on March 31, 2017. The deposits as on September 30, 2018 stood at Rs.399,092 crore with CASA proportion of 35.28%.

Moderation in credit growth
During FY18, the bank saw stagnant credit growth at 1% with Net Advances of Rs.288,761 crore as on March 31, 2018 as against Rs.286,467 crore as on March 31, 2017. The growth was driven largely by Retail, Agriculture and MSME (RAM) segments which together grew by 8% during FY18 and stood at Rs.158,642 crore as on March 31, 2018. However, MSME segment saw the maximum slippages mainly due to changes in policies during the year. The contribution of RAM segment was around 55% of domestic advances as on March 31, 2018 as against 53.80% as on March 31, 2017.

Key Rating Weaknesses
Weak asset quality parameters
The asset quality parameters have seen deterioration over the last couple of years. As on March 31, 2018, the bank reported Gross NPA ratio of 15.73% (P.Y.: 11.17%), Net NPA ratio of 8.42% (P.Y.: 6.57%) and Net NPA to Net-worth ratio of 131.27% (P.Y.: 98.08%). The slippages increased by more than 60% with major slippages in medium and large sector followed by micro and small sector.
During Q2FY19, the bank saw lower stressed assets both in absolute terms as well as ratio terms as a result of lower slippages, which declined 43% sequentially to Rs.2,667 crore, while recovery and up-gradation total stood at Rs.1,615 crore. Of the recoveries, Rs.111 crore came off accounts resolved through NCLT. Bank had written off Rs.1868 crore during the quarter and sold 2 accounts ARCs amounting to Rs.400 crore.
As on September 30, 2018, the bank reported Gross NPA ratio of 15.74% with Net NPA ratio of 8.42% and Net NPA to Net-worth of 131.15%.

Moderate profitability parameters
During FY18, UBI reported marginal growth in net interest income (NII) on account of reduction in cost of deposits. However, due to moderate credit growth and muted treasury income resulted in stagnated growth of 0.30% in total income during FY18. The provisions for the year increased by more than 100% from Rs.7,079 crore for FY17 to Rs.14,181 for FY18. The bank also made an additional provision of Rs.1,014 crore towards divergence as per RBIs Risk Based Supervision (RBS) exercise. The bank made provision of Rs.1,566 crore towards NCLT I list and Rs.991 crore towards NCLT II list. The bank did not avail any dispensation towards NCLT provision and MTM loses which further reduced profitability. Muted income growth coupled with significant rise in credit cost by way of higher provisioning on NPAs led to the bank reporting net loss of Rs.5,247 crore during FY18 as compared to Profit After Tax (PAT) of Rs.555 crore during FY17.
During H1FY19 (refers to period from April 01 to September 30), the bank's profitability improved on account of increased interest income and the bank reported PAT of Rs.269 crore on total income of Rs.19,347 crore as against loss of Rs.1,414 crore on total income of Rs.19,007 crore during H1FY18.

Analytical approach
The ratings are based on standalone profile of the bank and also factor in the expectation of strong support from Government of India (GOI) which holds majority shareholding in the bank.

Liquidity profile
The bank's Liquidity Coverage Ratio (LCR) stood at 116.17% as on September 30, 2018 (March 31, 2018: 106.60%) as compared to RBI's prescribed requirement of 90% by January 01, 2018 and 100% by January 01, 2019. The ALM profile as on October 31, 2018 had no negative cumulative mismatches in time buckets up to 6 months. In addition, the bank had excess SLR investments of Rs.11,175 crore as on September 30, 2018. The bank also has access to borrowing from RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with cash reserves with RBI which provide comfort in meeting any liquidity pressures. Further, considering the stable franchise of the bank and GoI support, the bank is expected to roll over its deposits.

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE Policy on Default Recognition](#)
[CARE's Rating Methodology For Banks](#)
[Bank - Rating framework for Basel III instruments (Tier I & Tier II)](#)
[Financial ratios - Financial Sector](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company
Union Bank of India (UBI), established in 1919, is the 6th largest public sector bank in India in terms of asset size as on March 31, 2018. The bank has total asset base of Rs.478,220 crore as on September 30, 2018 (Rs.487,406 crore as on March 31, 2018). Government of India (GOI) holds 67.42% shareholding in UBI as on September 30, 2018 (67.43% as on March 31, 2018). The bank has a pan India network of 4,303 branches (4,299 domestic branches) and 6,794 ATMs excluding 5,407 Micro – ATMs as of September 30, 2018. UBI is headed by Mr. Rajkiran Rai who took over as Managing Director & Chief Executive Officer (MD & CEO) of the bank w.e.f. July 01, 2017. 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 UK through its wholly owned subsidiary, Union Bank of India (UK) Ltd. The Bank has 27 extension counters, 59 satellite offices and 48 service branches in addition to its regular bank branches as of September 30, 2018

Brief Financials (Rs. crore)

Particulars	FY17 (A)	FY18 (A)
Total operating income	37,625	37,738
PAT	555	(5,247)
Total Assets	447,930	480,841
Net NPA (%)	6.57	8.42
ROTA (%)	0.13	(1.18)

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer **Annexure-2**

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments / Facilities

Name Of The Instrument	ISIN No.	Date Of Issuance	Coupon Rate	Maturity Date	Size Of The Issue (Rs. Cr)	Rating
Upper Tier II Bonds Series XIV-C	INE692A09225	27-Jan-10	8.55% up to 10 years Step up to 9.05% after 10th year If Call Option Not Exercised	15 Years 27-Jan-25	500.00	CARE AA; Stable
Upper Tier II Bonds Series XV	INE692A09233	28-Jun-10	8.48% up to 10 years Step up to 8.98% after 10th year If Call Option Not Exercised	15 Years 28-Jun-25	500.00	CARE AA; Stable
Lower Tier II Bonds	INE692A09241	28-Dec-12	8.9%	28-Dec-22	800.00	CARE AA+; Stable
Basel III Compliant Perpetual Bonds (ATI Bonds)	INE692A08029	15-Sep-16	9.5%	Perpetual	1,000.00	CARE AA-; Stable
Basel III Compliant Perpetual Bonds (ATI Bonds)	INE692A08037	04-Nov-16	9.0%	Perpetual	1,000.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. Cr)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (22-Jan-16)	1)CARE AAA (26-Aug-14)
2.	Bonds-Upper Tier II	LT	500.00	CARE AA; Stable	1)CARE AA; Stable (9-Oct-17)	1)CARE AA+; Negative (29-Dec-16) 2)CARE AA+ (19-Aug-16)	1)CARE AA+ (22-Jan-16)	1)CARE AA+ (26-Aug-14)
3.	Bonds-Upper Tier II	LT	500.00	CARE AA; Stable	1)CARE AA; Stable (9-Oct-17)	1)CARE AA+; Negative (29-Dec-16) 2)CARE AA+ (19-Aug-16)	1)CARE AA+ (22-Jan-16)	1)CARE AA+ (26-Aug-14)
4.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (19-Aug-16)	1)CARE AAA (22-Jan-16)	1)CARE AAA (26-Aug-14)
5.	Bonds-Lower Tier II	LT	800.00	CARE AA+; Stable	1)CARE AA+; Stable (9-Oct-17)	1)CARE AAA; Negative (29-Dec-16) 2)CARE AAA (19-Aug-16)	1)CARE AAA (22-Jan-16)	1)CARE AAA (26-Aug-14)
6.	Bonds-Perpetual Bonds	LT	2000.00	CARE AA-; Stable	1)CARE AA-; Stable (9-Oct-17)	1)CARE AA; Negative (29-Dec-16) 2)CARE AA (19-Aug-16)	1)CARE AA (22-Jan-16)	1)CARE AA (13-Feb-15)

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