

Union Bank of India

October 09, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Lower Tier II Bonds (Basel II)	800.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AAA; Negative (Triple A; Outlook: Negative)
Upper Tier II Bonds (Basel II) @	1,000.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA+; Negative (Double A Plus; Outlook: Negative)
Perpetual Bonds (Basel III)#	2,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Total	3,800 (Rs. Three Thousand Eight Hundred Crore Only)		

Details of instruments/facilities 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 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.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to various debt instruments is based on deterioration in the income and financial profile of the bank due to continued stress on asset quality leading to high provisioning requirement.

The ratings continue to 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, and moderate capitalization levels.

Continued ownership and support from GoI, asset quality, profitability and capital adequacy are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by Government of India: The bank's credit profile derives considerable strength from parentage of Government of India (GoI) being the majority shareholder in Union Bank of India holding 63.44% stake as on June 30, 2017 and expectations of support in the times of stress. The rating further derives comfort from demonstrated capital

support in the form of regular equity infusions over the past few years. As a part of Government's 'Indradhanush' scheme to revamp public sector banks, GoI infused equity capital of Rs.1,080 crore in the bank during FY16 and additional equity capital Rs.541 crore during FY17 (refers to period from April 01 to March 31). GoI is expected to continue its majority shareholding and provide capital support in times of stress to the bank and is a key rating sensitivity.

Moderate capitalization levels: Apart from the equity capital infusion of Rs.541 crore by GoI, the bank has been able to raise capital by way of Additional Tier I (AT I) Bonds of Rs.3,500 crore and Tier II Bonds of Rs.1,750 crore during FY17. The capital raising helped the bank to report Capital adequacy ratio (CAR) (Under Basel III) of 11.79% (P.Y.: 10.56%) with Tier I CAR of 9.02% (P.Y.: 8.14%) and Common Equity Tier I (CET I) Ratio of 7.71% (P.Y.: 7.95%) as on March 31, 2017. The bank further raised AT I Bonds of Rs.500 crore during Q1FY18 (refers to period from April 01 to June 30) which helped the bank to report CAR (Under Basel III) of 12.01%, Tier I CAR of 9.24% and CET I Ratio of 7.73% as on June 30, 2017.

Comfortable liquidity profile and stable resources profile: The liquidity position of the bank was comfortable with well-matched Asset Liability Maturity (ALM) profile. The bank's excess SLR investments, healthy term deposit rollover rate and capital raising ability provide comfort. The bank has a stable deposit base and its deposits grew by 10.4% during FY17 with the proportion of Current Account Savings Account (CASA) deposits at 34.44% as on March 31, 2017 as against 32.33% as on March 31, 2016.

Key Rating Weaknesses

Deterioration in financial performance: During FY17, UBI saw credit growth of around 7% which was in line with the overall banking industry. The bank reported interest income of Rs.32,660 crore during FY17 which was at similar level of Rs.32,199 crore for FY16. The bank's total income showed growth of 5% which was largely supported by around 37% growth in non-interest income (treasury and fee based) income. The bank's Net Interest Margin (NIM) (based on year end total assets) remained at similar level at 2.10% (P.Y.: 2.13%) during FY17. The bank saw improvement in its operational profit which increased by around 32% during FY17. However, due to substantial increase in provisioning (other than tax) which increased from Rs.3,877 crore during FY16 to Rs.7,087 crore during FY17 resulted in bank reporting Profit After Tax (PAT) of Rs.555 crore as compared to PAT of Rs.1,352 crore for FY16. The bank's Return on Total Asset (ROTA) declined to 0.13% for FY17 from 0.35% for FY16. During Q1FY18 (refers to period from April 01 to June 30), the bank reported PAT of Rs.117 crore on total income of Rs.9,568 crore as compared to PAT of Rs.166 crore on total income of Rs.8,917 crore during Q1FY17. Further deterioration in the financial risk profile due to continued pressure on asset quality continues to remain a key rating sensitivity.

Weak asset quality parameters: Due to continued moderation in macroeconomic indicators and asset quality review undertaken by RBI, the asset quality indicators across the public sector banks continued to show significant stress. During FY17, the bank's GNPA ratio increased to 11.19% as on March 31, 2017 (P.Y.: 8.70%) and NNPA ratio increased to 6.57% (P.Y.: 5.25%) with net NPA/ net worth being 98.08% (P.Y.: 70.58%). Bank's gross stressed assets (Gross NPA + Standard Restructured Assets + Security Receipts investment) as a proportion of gross advances and net stressed assets as a proportion of tangible networth as on March 31, 2017 increased to 13.33% (P.Y.: 12.03%) and 131.98% (P.Y.: 117.11%) respectively. As on June 30, 2017, the bank reported GNPA Ratio of 12.63% and NNPA Ratio of 7.47%. Any further, rise in NPA levels would continue to be a key rating sensitivity.

Analytical approach: The ratings are based on standalone basis and continue to factor in strong support from Government of India (GoI) which holds majority shareholding in the bank.

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 amongst the top 10 public sector banks in India in terms of asset size. The bank had an asset base of around Rs.4.5 trillion as on March 31, 2017. Government of India (GOI) held 63.44% shareholding in UBI as on March 31, 2017. The bank has a pan India network of 4,286 domestic branches and 7,574 ATMs including 1685 talking ATMs as of June 30, 2017. Union Bank of India is headed by Mr. Rajkiran Rai who took over as Managing Director & CEO of the bank from 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 the UK through its wholly owned subsidiary, Union Bank of India (UK) Ltd.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	35,831	37,625
PAT	1,352	555
Total Assets	4,01,677	4,47,930
Net NPA (%)	5.25	6.57
ROTA (%)	0.35	0.13

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.

Analyst Contact:

Name: Aditya Acharekar

Tel: 022-6754 3528

Mobile: + 91-9819013971

Email: aditya.acharekar@careratings.com

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

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.

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/outlooks 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 /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
XVI-B LOWER TIER II Bonds	28-Dec-12	8.90%	28-Dec-22	800	CARE AA+; Negative
XIV-C UPPER TIER II Bonds	27-Jan-10	8.55% upto 10 years. Step up to 9.05% after 10th year, if call option not exercised.	27-Jan-25	500	CARE AA; Negative
XV-A UPPER TIER II Bonds	28-Jan-10	8.48% upto 10 years. Step up to 8.98% after 10th year, if call option not exercised.	28-Jan-25	500	CARE AA; Negative
AT 1 Bonds (Basel III)	15-Sep-16	9.5%	Perpetual	1000	CARE AA-; Negative
AT 1 Bonds (Basel III)	15-Sep-16	9.0%	Perpetual	1000	CARE AA-; Negative

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 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+; 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+; 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 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; Negative (29-Dec-16) 2)CARE AA (19-Aug-16)	1)CARE AA (22-Jan-16)	1)CARE AA (13-Feb-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com