

Union Bank of India

September 11, 2019

Ratings

Instrument	Amount (Rs. Crore)	Rating ¹	Remarks
Lower Tier II Bonds	800.00 (Rupees Eight Hundred crore only)	CARE AA+ (Double A Plus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Upper Tier II Bonds (Basel II)	1,000.00 (Rupees One Thousand crore only)	CARE AA (Double A) (Credit watch with developing implications)	Placed on credit watch with developing implications
Perpetual Bonds (Basel III)	2,000.00 (Rupees Two Thousand crore only)	CARE AA- (Double A Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Total	3,800.00 (Rupees Three Thousand and Eight Hundred crore only)		

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

CARE has rated the aforesaid Upper Tier-II Bonds and Perpetual Bonds one notch lower than Lower Tier-II Bonds of Union Bank of India in view of their increased sensitiveness to Union Bank of India's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of instruments. The ratings factor in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in the payment of interest/principal (as the case may be), following 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.

Tier-II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier-II instruments even under Basel II. CARE has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV. Additional Tier-I Bonds (AT 1) under Basel III are characterized by the existence of banks having coupon discretion at all points of time, capital thresholds for coupon non-payment, and principal write-down (on breach of a pre-specified trigger). As prescribed by RBI, the pre-specified trigger for AT 1 bonds before March 31, 2019, will be CET-1 ratio of 5.5% and 6.125% after March 31, 2019, or the Point of Non-viability (PONV) trigger is breached in RBI's opinion. These features increase the risk attributes of AT 1 bonds compared with Tier-II instruments under Basel III and capital instruments issued under Basel II. In CARE's opinion, these loss absorption features increase the risk parameters associated with AT 1 bonds compared to the parameters considered to assess rating of Tier-II instruments under Basel III and capital instruments under Basel II. Thus, CARE has rated the Additional Tier-I bonds under Basel III two notches below the rating of Tier-II instruments under Basel III.

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

The ratings assigned to the debt instruments of Union Bank of India have been placed under watch with developing implications following the development involving communication from Ministry of Finance, GOI on amalgamation of Union Bank of India (UBI) with Andhra Bank and Corporation Bank wherein UBI would be the anchor bank. The amalgamated bank is likely to be the 5th largest public sector bank in terms of business post amalgamation. Given the number of approvals required and timelines to obtain the same and challenges to be encountered in successfully integrating the operations, CARE has placed the ratings under watch with developing implications. CARE will continue to monitor the development and take appropriate rating call once clarity emerges on the merged entity.

The detailed press release on Union Bank of India is available here: [click here](#)

Detailed rating rationale is available on www.careratings.com

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

Analytical approach: Standalone

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) was established in 1919. The bank has total asset base of 5,01,581 crore as on June 30, 2019 (Rs. 4,86,602 crore as on March 31, 2019). Government of India (GOI) holds 74.28% shareholding in UBI as on June 30, 2019 (74.28% as on March 31, 2019). The bank has a pan India network of 4,288 branches (4,285 domestic branches) and 6,561 ATMs excluding 5,586 Micro – ATMs as of June 30, 2019.

Union Bank of India 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 overseas branches in Hong Kong, Sydney and Dubai, in addition to representative office in Abu Dhabi. 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 June 30, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	37,738	38,541
PAT	(5,247)	(2,947)
Total Assets*	480,841	4,86,602
Net NPA (%)	8.42	6.85
ROTA (%)	(1.18)	(0.61)

A: Audited *Total Assets is calculated as net of deferred tax asset, revaluation reserves and intangible assets. ROTA is calculated accordingly

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments / Facilities

Name Of The Instrument	ISIN No.	Date Of Issuance	Coupon Rate	Maturity Date	Size of 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 10 th year If Call Option Not Exercised	15 Years 27-Jan-25	500.00	CARE AA (Double A) (Credit watch with developing implications)
Upper Tier II Bonds Series XV	INE692A09233	28-Jun-10	8.48% up to 10 years Step up to 8.98% after 10 th year If Call Option Not Exercised	15 Years 28-Jun-25	500.00	CARE AA (Double A) (Credit watch with developing implications)
Lower Tier II Bonds	INE692A09241	28-Dec-12	8.9%	28-Dec-22	800.00	CARE AA+ (Double A Plus) (Credit watch with developing implications)

Basel III Compliant Perpetual Bonds (ATI Bonds)	INE692A08029	15-Sep-16	9.5%	Perpetual	1,000.00	implications) CARE AA- (Double A Minus) (Credit watch with developing implications)
Basel III Compliant Perpetual Bonds (ATI Bonds)	INE692A08037	04-Nov-16	9.0%	Perpetual	1,000.00	CARE AA- (Double A Minus) (Credit watch with developing implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Upper Tier II	LT	500.00	CARE AA (Double A) (Credit watch with developing implications)	1) CARE AA; Stable (2-Jan-19)	-	1)CARE AA; Stable (9-Oct-17)	1)CARE AA+; Negative (29-Dec-16) 2)CARE AA+ (19-Aug-16)
2.	Bonds-Upper Tier II	LT	500.00	CARE AA (Double A) (Credit watch with developing implications)	1) CARE AA; Stable (2-Jan-19)	-	1)CARE AA; Stable (9-Oct-17)	1)CARE AA+; Negative (29-Dec-16) 2)CARE AA+ (19-Aug-16)
3.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (19-Aug-16)
4.	Bonds-Lower Tier II	LT	800.00	CARE AA+ (Double A Plus) (Credit watch with developing implications)	1) CARE AA+; Stable (2-Jan-19)	-	1)CARE AA+; Stable (9-Oct-17)	1)CARE AAA; Negative (29-Dec-16) 2)CARE AAA (19-Aug-16)
5.	Bonds-Perpetual Bonds	LT	2000.00	CARE AA- (Double A Minus) (Credit watch with developing implications)	1) CARE AA-; Stable (2-Jan-19)	-	1)CARE AA-; Stable (9-Oct-17)	1)CARE AA; Negative (29-Dec-16) 2)CARE AA (19-Aug-16)

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.

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