

## United Bank of India

September 11, 2019

### Ratings

Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Outstanding Lower Tier II Bonds (Series VII-tranche1)	200.00	CARE A+; Credit Watch with Developing Implications (Single A Plus; Credit Watch with Developing Implications)	Placed on credit watch with developing implication
Perpetual Bonds (Series I)	300.00	CARE A-; Credit Watch with Developing Implications (Single A Minus; Credit Watch with Developing Implications)	Placed on credit watch with developing implication

*Details of instruments in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to instruments of United Bank of India (UBI) on credit watch with developing implications. The rating action follows the announcement by Ministry of Finance (MoF) to amalgamate UBI and Oriental Bank of Commerce (OBC) into Punjab National Bank (PNB), subject to receipt of regulatory approvals and approvals by the boards of respective banks. PNB would be the anchor bank and would become the second largest Public Sector Bank (PSB).

CARE would continue to monitor further developments on the proposed merger and would review the ratings in accordance with the progress on the process.

The ratings assigned to the instruments of UBI continue to derive strength from strong parentage support of Government of India (GOI), relatively higher proportion of low cost deposits and satisfactory capitalization & liquidity parameters.

The ratings also take into account increased losses during FY19 (refers to the period April 1 to March 31), though profitability improved during Q1FY20.

The rating continues to be constrained by weak asset quality though it witnessed improvement, high dependence on GOI for fund support and restrictions due to UBI being under Prompt Corrective Action (PCA) framework of Reserve Bank of India (RBI).

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Strong parentage support**

UBI is a public sector bank with GoI holding 96.83% shareholding (as on June 30, 2019). The GoI has been supporting public sector banks including UBI with regular capital infusions. During FY19, the bank received equity share capital of Rs.4,998 crore from GOI towards capital infusion under the PSB recapitalisation plan for banks.

UBI is expected to receive further capital infusion of Rs.1,600 crore from GoI.

##### **Relatively higher proportion of low cost deposits**

UBI has built a strong deposit base over the years with relatively high proportion of CASA deposit base. The proportion of CASA deposits remained relatively stable at 51.45% as on March 31, 2019 as compared to 48.44% as on March 31, 2018. The same stood at 49.41% as on June 30, 2019. The bank's Credit to Deposit ratio (C/D ratio) increased marginally from 0.48x as on March 31, 2018 to 0.50x as on March 31, 2019 on account of higher growth in advances (y-o-y growth of 7% in FY19) as compared to growth in deposit base (y-o-y growth of 4% in F19). The same remained relatively stable at 0.51x as on June 30, 2019.

##### **Satisfactory capitalization**

As on March 31, 2019, the bank's Tier I Capital Adequacy Ratio (CAR) and Overall CAR stood at 10.14% and 13.00% respectively (as against minimum regulatory requirement of 8.875% and 10.875% respectively). The Tier I CAR and Overall CAR remained relatively stable at 9.94% and 12.60% respectively as on June 30, 2019. The bank's CET I Ratio stood at 9.94% (against minimum regulatory requirement of 7.375%) as on June 30, 2019.

##### **Satisfactory Liquidity**

As per structural liquidity statement of the bank as on August 6, 2019, the liquidity is comfortable with no cumulative negative mismatches upto 1 year. Further, the Bank has excess SLR investment of Rs.6,123 crore as on August 30, 2019 (SLR Investments maintained Rs.31,439 crore vis-à-vis required SLR of Rs.25,316 crore). The bank's liquidity profile is supported by

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

a healthy proportion of low cost CASA deposits, high proportion of liquid investments and also access to systemic sources of funds, such as refinance limits from RBI and access to the call money market.

### Key Rating Weaknesses

#### ***Continued deterioration in the financial performance during FY19 albeit improvement in Q1FY20***

The bank's total income increased by 4% on a y-o-y basis from Rs.10,556 crore in FY18 to Rs.10,944 crore in FY19 due to increase in both interest income and other income.

However, Net Interest Income (NII) increased from Rs.1,493 crore in FY18 to Rs.1,975 crore in FY19 due to lower interest cost of Rs.6,585 crore in FY19 vis-à-vis Rs.6,849 crore in FY18. The interest cost was lower due to decrease in borrowings and decline in average borrowing cost to 4.88% in FY19 (5.23% in FY18) with increase in CASA proportion in borrowings. Accordingly, NIM also improved from 1.05% in FY18 to 1.34% in FY19. However, the net loss increased from Rs.1,454 crore in FY18 to Rs.2,316 crore in FY19 primarily due to increase in opex and significant increase in provisions on NPAs. Accordingly, the return indicators viz. Return on Total Assets (ROTA) and Return on Net Worth (RONW) remained negative.

During Q1FY20, UBI reported net profit of Rs.105 crore on total income of Rs.3,003 crore as against net loss of Rs.389 crore on total income of Rs.2,550 crore in Q1FY19. The improvement in performance was due to increase in NII, other income and lower provisions during the quarter.

#### ***Weak asset quality albeit improvement witnessed***

The asset quality of the bank continued to remain stressed, though it witnessed improvement during FY19. Gross NPA improved from 24.08% as on March 31, 2018 to 16.48% as on March 31, 2019 due to lower slippages and higher reductions in FY19 along with growth in advances. The reductions were higher due to higher recoveries and write-offs. Consequently the Net NPA ratio also improved to 8.64% (16.51% as on Mar.31, 2018) and Net NPA to Net worth ratio improved to 54.71% as on March 31, 2019 (133.10% as on Mar.31, 2018). GPNA and NPA Ratio remained stable at 15.89% and 8.19% as on June 30, 2019.

#### ***PCA restrictions imposed by RBI***

RBI, vide its letter dated December 19, 2017 has prescribed certain actions under the PCA Framework, in view of high net NPA, low coverage ratio and requirement to raise capital on the assessment of the Bank's position as on March 31, 2017. The action point focused on profit retention, capital augmentation, provision coverage, diversification of credit portfolio, rationalization of expansion and cost control. The PCA restrictions on the bank are still continuing due to asset quality.

#### ***Prospects***

The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Going forward, asset quality stress is expected to continue and profitability will be subdued. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory.

**Analytical Approach:** Standalone; factoring in capital support and majority ownership of Government of India given it being a public sector bank.

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios –Financial Sector](#)

[Bank – CARE's Rating Methodology for Banks](#)

[Bank – Rating Framework for Basel III instruments \(Tier I & Tier II\)](#)

[Factoring Linkages in Ratings](#)

#### **About the Bank**

UBI was incorporated in 1950 with GoI having about 96.83% equity stake as on June 30, 2019. Its major concentration of branches is in eastern and north-eastern India. Currently, the overall functioning of the bank is looked after by Shri Ashok Kr. Pradhan, MD & CEO (appointed w.e.f Oct.01, 2018).

As on June 30, 2019, UBI managed advances and deposits of Rs.73,249 crore and Rs.132,402 crore, respectively, through a network of 2,055 branches. UBI is under PCA since December'2017.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Income	10556	10944
PAT	(1454)	(2316)
Interest coverage – before provisions	1.15	1.21
Interest coverage – after provisions	0.57	0.30
Total Assets	1,43,824	1,50,606
Net NPA (%)	16.51	8.67
ROTA (%)	-1.02	-1.57

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

#### Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	December 28, 2011	9.20%	28.12.2021	200.00	CARE A+ (Under Credit watch with Developing Implications)
Debt-Perpetual Debt	December 05, 2012	9.27%	05.12.2022	300.00	CARE A- (Under 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. crore)	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-Lower Tier II	LT	200.00	CARE A+ (Under Credit watch with Developing Implications)	-	1)CARE A+; Negative (06-Dec-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (06-Sep-17)	1)CARE A+; Negative (26-Dec-16) 2)CARE A+ (12-Sep-16)
2.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (14-Jun-16)
3.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (12-Sep-16)
4.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (07-Jul-17)	1)CARE A+; Negative (26-Dec-16) 2)CARE A+ (12-Sep-16)
5.	Bonds-Lower Tier II	LT	-	-	1)Withdrawn (15-Apr-19)	1)CARE A+; Negative (06-Dec-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (06-Sep-17)	1)CARE A+; Negative (26-Dec-16) 2)CARE A+ (12-Sep-16)
6.	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (07-Jul-17)	1)CARE A-; Negative (26-Dec-16) 2)CARE A-

								(12-Sep-16)
7.	Debt-Perpetual Debt	LT	300.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Negative (06-Dec-18)	1)CARE A-; Stable (05-Feb-18) 2)CARE A-; Negative (06-Sep-17)	1)CARE A-; Negative (26-Dec-16) 2)CARE A- (12-Sep-16)
8.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (06-Sep-17)	1)CARE A+; Negative (26-Dec-16) 2)CARE A+ (12-Sep-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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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