

## United Bank of India

October 10, 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)	Continues 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)	Continues on credit watch with developing implication

*Details of instruments in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the instruments of United Bank of India (UBI) continue to derive strength from majority ownership and demonstrated fund support from Government of India (GOI), stable low cost deposits base with long track record and pan India network and satisfactory capitalization and 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).

The ratings assigned to UBI continue to remain on credit watch with developing implications due to 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) post completion of the merger. The Board of Directors of UBI at its meeting held on September 18, 2019 has accorded In-principle approval for the amalgamation and commencement of amalgamation process, subject to all applicable approvals.

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

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Majority ownership and demonstrated fund support from GoI**

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 infusion of Rs.4,998 crore and further Rs.1,666 crore in Q2FY20 from GOI towards capital infusion under the PSB recapitalisation plan for banks.

##### **Long track record with pan India branch network leading to a stable low cost deposits base**

UBI has long track record of over six decades and has established pan India franchise through its widespread branch network of 2,055 branches across India. The bank's major concentration of branches is, however, in eastern and north-eastern India.

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.

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

**Satisfactory capitalization**

Despite net loss of Rs.2,316 crore in FY19, the capitalization improved as on March 31, 2019 on account of GOI's capital infusion of Rs.4,998 crore.

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. The recent infusion of Rs.1666 crore is expected to further improve capitalisation level.

**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 lower average borrowing cost at 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 Networth (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. The provision coverage ratio also improved from 37.67% in FY18 to 52% in FY19. 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, in December, 2017 has prescribed certain actions under the PCA Framework, in view of high net NPA, low capitalisation 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 weak 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.

**Liquidity: Strong**

As per structural liquidity statement of the bank as on September 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 liquidity coverage ratio (LCR) of UBI stood at 216.86% as on June 30, 2019. The bank's liquidity profile is supported by 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.

**Analytical Approach:** Standalone; factoring in capital support and majority ownership of GoI, UBI 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](#)

[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 October 1, 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	10,556	10,944
PAT	(1,454)	(2,316)
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	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	28.12.2011	INE695A09087	9.20%	28.12.2021	200.00	CARE A+ (Under Credit watch with Developing Implications)
Debt-Perpetual Debt	05.12.2012	INE695A09095	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	1)CARE A+ (Under Credit	1)CARE A+; Negative	1)CARE A+; Stable	1)CARE A+; Negative

				with Developing Implications)	watch with Developing Implications) (11-Sep-19)	(06-Dec-18)	(05-Feb-18) 2)CARE A+; Negative (06-Sep-17)	(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- (Under Credit watch with Developing Implications) (11-Sep-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)
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.

## Contact us

### Media Contact

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID: mradul.mishra@careratings.com

### Analyst Contact

Name: Ms Mamta Muklania

Contact no.: 033-4018 1651/98304 07120

Email ID: mamta.khemka@careratings.com

### Business Development Contact

Name: Mr. Lalit Sikaria

Contact no.: 033-40181607

Email ID: lalit.sikaria@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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**