

RATING RATIONALE

14 December 2021

Union Bank of India

Brickwork Ratings withdraws the rating for the Additional Tier-I Bonds (Basel III) of Rs 1045 Crs, reaffirms the rating of Tier-II bonds (Basel III) of Rs.2500 Crs and reaffirms the rating of Additional Tier-I bonds (Basel III) of Rs.3705 Crs of Union Bank of India.

Particulars:

Instruments **	Rated Amount (Rs Crs)		Tenure	Rating#	
	Previous	Present		Previous (October 2021)	Present
Additional Tier-I Bonds (Basel III)	3705	3705	Long Term	BWR AA/ Stable	BWR AA/ Stable (Reaffirmed)
Additional Tier-I Bonds (Basel III)^	1045	-	NA	BWR AA/ Stable	Withdrawn as amount not raised
Tier-II Bonds (Basel III)	2500	2500	Long Term	BWR AA+/ Stable	BWR AA+/ Stable (Reaffirmed)
Total	7250	6205	Rupees Six Thousand Two Hundred & Five Crores Only		

#Please refer to BWR website www.brickworkratings.com for definition of the ratings

**Details of instruments are provided in Annexure

^Withdrawn at the request of the bank. The bank informed that nil amount raised under the said AT-I bond using BWR ratings and the bank does not intend to utilize the said unutilized rating in future.

RATING ACTION / OUTLOOK

BWR withdraws the rating of AT-I bonds amounting to Rs. 1045 Crs at the request of Union Bank of India (the bank) as there is no amount raised under the said rated issues and neither the bank intends to raise any amount under the said unutilized BWR rated issues in future. The rating withdrawal is in line with extant regulatory guidelines and BWR's rating withdrawal policy.

The rating reaffirmation for the aforesaid bond issues of Union Bank of India factors in the continued strong support from the Government of India (GoI), substantial business size and asset size since the amalgamation, comfortable capitalisation and resource profile as of 30 Sept 2021. The Bank's business size was Rs.15.49 lakh crores and balance sheet size of Rs.10.62 lakh crores, comfortable Capital adequacy ratios (i.e. a total CAR of 13.64% and Tier I ratio of 11.32% and Common Equity Tier-I (CET-1) ratio of 10.16%). The rating, however, is constrained by the lower CASA ratio, average asset quality and its likely pressure on earnings.

BWR believes Union Bank of India's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Nil

KEY RATING DRIVERS

CREDIT STRENGTHS:-

Strong support from GOI: There is high sovereign support, with the GOI holding 83.5% as on 30 September 2021. The GOI's support to public sector banks (PSBs) has always been of prime importance. Being the key promoter-shareholder, the GOI has continued to support PSBs even in times of distress, through various recapitalisation plans announced over the years. The Bank had raised capital amounting to Rs 1447 Crs through qualified institutional placement in May 2021. The GOI's support to the bank in the form of capital infusion is expected to continue, given that the bank is one of the major PSBs in the country. The GOI is expected to provide capital support to the bank as and when required for business growth, as well as to strengthen the balance sheet to cover for any asset-side risks.

Established track record and significant scale of operations: Incorporated in 1919, Union Bank has an established operational track record of around 10 decades and is among the large PSBs in India in terms of business and outreach. The size of the balance sheet had almost doubled post amalgamation, thereby increasing the bank's market share. As of September 2021, the bank had a balance sheet size of Rs.10.62 lakh crores and business size of Rs.15.49 lakh crores. The gross advances stood at Rs 634583 Crs as of 30 Sept 2021, of which 97.5% were domestic advances. The contribution from corporate advances was 42.9%, followed by retail at 20.2%, agriculture at 19.7% and MSME at 17.2% of the domestic advances as on 30 Sept 2021. The number of branches and employees also more than doubled, resulting in a wider reach for the bank. The merged bank had 9274 branches, 11677 automated teller machines (ATMs).

Strengthened deposit base: Deposits stood at Rs 914,022 Crs as at 30 Sept 2021. Union Bank's current accounts and savings account (CASA) ratio stood at 37.16% as on 30 Sept 2021, which was lower than some other large banks. However, the share of current account deposits in the overall CASA has improved. The merged entity has a strong retail deposit base. Retail term deposits (less than Rs 2 Crs) and CASA deposits as a percentage of the total term deposits was over 85% for the merged bank. The credit to deposit ratio was comfortable, at 69.43%, as on 30 Sept 2021.

CREDIT WEAKNESS:-

Moderating asset quality, continues to remain a concern: The gross non-performing assets (NPAs) of the merged entity was as high as Rs.97,640 Crs as of 01 April 2020, which decreased to Rs.89,788 Crs as of 31 March 2021. This was mainly through a write-off of Rs.16,984 Crs followed by recoveries of Rs.5191 Crs and upgrades of Rs.2674 Crs, while there were slippages of Rs.17,443 Crs during FY21. As of 30 Sept 2021, the gross NPA further decreased to Rs.80,211 Crs through write offs of Rs.15,448 Crs, upgradation of Rs.5310 Crs with improved

collections, and recoveries of Rs. 2613 Crs, while there were slippages of Rs.13794 Crs. As of 30 Sept 2021, the Gross NPA ratio was 12.64% (FY21: 13.74%) and Net NPAs were 4.61% (FY21: 4.62%).

Gross NPAs in the MSME segment stood at 20.42%, followed by the corporate segment at 13.59%, agriculture at 12.44% and the retail segment at 4.15% as on 30 Sept 2021. Incremental slippages in Q2 FY22 were lower at Rs 6,745 Crs, compared with Rs. 7,049 crs during Q1FY22 and Rs 14,688 Crs during Q4 FY21. However, the continued slowdown in collections on account of the COVID-19 pandemic may result in an increase in slippages, which may impact the asset quality in the near term, shall remain a monitorable.

Improving earnings profile constrained by provisions on weaker assets: The Bank earned net profits of Rs.2906 Crs for FY21, after a substantial net loss in FY20. The bank's quarterly net profits have been increasing on a quarterly basis over the last few quarters. Q2FY21: Rs.517 Crs, Q3FY21: Rs.727 Crs and Q4FY21: Rs.1330 Crs and Q1FY22: Rs.1181 Crs and Q2FY22: Rs. 1526 Crs. There was an increase in slippages to NPA in H1FY22, resulting in increased provisions of Rs. 8548 Crs and impact on net profits. The bank's stressed asset book, especially from the SMA 2 book on slippages to NPA and its impact on provisions and net profits shall remain monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has considered the standalone performance of Union bank of India. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The bank's ability to continue its growth in business and improve on its yield on advances while maintaining the capital adequacy ratios at the current levels in the medium term shall be positive for the bank.

Negative: Decline in the bank's net profits over those of the previous year and a substantial weakening of the asset quality, impacting the capital adequacy ratios shall remain a key rating monitorable.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same

LIQUIDITY INDICATORS: ADEQUATE

As of 30 September 2021, the bank had a comfortable liquidity position, with Liquidity Coverage Ratio (LCR) of 174.79%, which is well above the regulatory requirement of 100%.

ABOUT THE BANK

Union Bank of India started its banking operations in Mumbai in 1919 and is among the large PSBs in India. Andhra Bank and Corporation bank were amalgamated into Union Bank of India w.e.f. 1 April 2020. The GOI held an 83.5% stake in the bank as of 30 September 2021. The balance sheet size has almost doubled for the merged entity. The number of branches and employees also more than doubled, resulting in a wider reach for the bank. The merged bank had 9274 branches and 11677 automated teller machines (ATMs).

KEY FINANCIAL INDICATORS STANDALONE

Parameters	Units	FY 2020 Pre merger	FY 2021
		Audited	Audited
Total Assets	Rs Crs	550,683	1071,706
Business	Rs Crs	797,589	1577,489
CASA ratio	%	35.6	36.3
Gross NPA	%	14.2	13.7
Net NPA	%	5.5	4.6
PCR	%	73.6	81.3
NII	Rs Crs	11437	24688
Net Profits	Rs Crs	-2897	2906
NIM	%	2.3	2.7
ROA	%	-ve	0.27
Total CAR	%	12.8	12.6
Tier I ratio	%	10.8	10.4
CET-1 ratio	%	9.4	9.1

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY - NIL

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

Sr. No.	Name of Instrument	Current Rating (2021)			2021 (04.10.2021)			Rating History for the past 3 years								
		Type	Amount (Rs. Crs)	Rating	Type	Amount (Rs. Crs)	Rating	2020			2019			2018		
1	Innovative Perpetual Debt Instrument (IPDI)	--	--	--	--	--	--	--			15.10.19			26.3.18 / 4.4.18		
								Long Term	140	Rating Withdrawn *	Long Term	140	BWR AA+/Stable	Long Term	140	BWR AA+/Stable
								--			30.3.19			NA		
								Long Term	140	BWR AA+/Stable						
2	Innovative Perpetual Debt Instrument (IPDI)	--	--	--	--	--	--	--			15.10.19			26.3.18 / 4.4.18		
								Long Term	200	Rating Withdrawn *	Long Term	200	BWR AA+/Stable	Long Term	200	BWR AA+/Stable
								--			30.3.19			NA		
								Long Term	200	BWR AA+/Stable						
3	Upper Tier II Bonds	--	--	--	--	--	--	--			15.10.19			26.3.18 / 4.4.18		
								Long Term	500	Rating Withdrawn *	Long Term	500	BWR AA+/Stable	Long Term	500	BWR AA+/Stable
								--			30.3.19			NA		
								Long Term	500	BWR AA+/Stable						
4	Tier II Bonds (Basel III)	Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AA+/Stable	03.11.20			15.10.19			26.3.18 / 4.4.18		
								Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AA+/CWDI	Long Term	1000	BWR AA+/Stable
								15.10.20			30.3.19			NA		
								Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AA+/Stable			
5	Additional Tier I Bonds (Basel III)	Long Term	1500	BWR AA/Stable	Long Term	1500	BWR AA/Stable	03.11.20			15.10.19			26.3.18 / 4.4.18		
								Long Term	1500	BWR AA/Negative	Long Term	1500	BWR AA/CWDI	Long Term	1500	BWR AA/Stable
								15.10.20			30.3.19			NA		

								Long Term	1500	BWR AA/ Negati ve	Long Term	1500	BWR AA/ Stable				
6	Additional Tier I Bonds (Basel III)	Long Term	1000	BWR AA/ Stable	Long Term	1000	BWR AA/ Stable	03.11.20			15.10.19			26.3.18 / 4.4.18			
								Long Term	1000	BWR AA/ Negati ve	Long Term	1000	BWR AA/ CWDI	Long Term	1000	BWR AA/ Stable	
								15.10.20			30.3.19			NA			
								Long Term	1000	BWR AA/ Negati ve	Long Term	1000	BWR AA/ Stable				
7	Tier II Basel III Bonds	Long Term	500	BWR AA+/ Stable	Long Term	500	BWR AA+/ Stable	03.11.20			NA			NA			
								Long Term	500 ^	BWR AA+/ Stable							
								15.10.20									
								Long Term	500 ^	BWR AA+/ Stable							
8	Tier II Basel III Bonds	Long Term	1000	BWR AA+/ Stable	Long Term	1000	BWR AA+/ Stable	03.11.20			NA			NA			
								Long Term	1000 ^	BWR AA+/ Stable							
								15.10.20									
								Long Term	1000 ^	BWR AA+/ Stable							
9	Additional Tier I Bonds (Basel III)	Long Term	1205	BWR AA/ Stable	Long Term	2000	BWR AA/ Stable	03.11.20			NA			NA			
								Long Term	2000 ^	BWR AA/ Negati ve							
10	Additional Tier I Bonds (Basel III)	-	-	-	Long Term	250	BWR AA/ Stable										
Total			6205			Rupees Six Thousand Two Hundred and Five Crores Only											

CWDI - Credit Watch with Developing Implications

* Rating is withdrawn on account of redemption

^ Issued by Corporation Bank and on amalgamation, transferred to Union Bank of India.

COMPLEXITY LEVELS OF THE INSTRUMENTS - HIGHLY COMPLEX

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Complexity levels of the Rated Instruments](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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ANNEXURE I

Details of Bank Loan Facilities rated by BWR - Not Applicable

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
-	-	-	-	-	-
-	-	TOTAL	--	-	-
-	NIL				

ANNEXURE II

INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS

INSTRUMENT DETAILS

Instrument	Issue Date	Amount Raised (Rs in Crs)	Coupon Rate	Maturity Date	ISIN Particulars
Tier II Bonds (Basel III)	22-Aug-2016	1000	8%	22-Aug-2026	INE692A08011 *
Additional Tier I Bonds (Basel III)	29-Mar-2017	250	9.1%	Perpetual	INE692A08052 *
Additional Tier I Bonds (Basel III)	30-Mar-2017	750	9.1%	Perpetual	INE692A08060 *
Additional Tier I Bonds (Basel III)	31-Mar-2017	500	9.1%	Perpetual	INE692A08078 *

Additional Tier I Bonds (Basel III)	3-May-2017	500	9.08%	Perpetual	INE692A08086 *
Additional Tier I Bonds (Basel III)	15-Dec-2020	500	8.73%	Perpetual	INE692A08110*
Additional Tier I Bonds (Basel III)	11-Jan-2021	1000	8.64%	Perpetual	INE692A08128 *
Additional Tier I Bonds (Basel III)	29-Jan-2021	205	8.63%	Perpetual	INE692A08136 *
Tier II Bonds (Basel III)	8-Nov-2019	1000	8.93%	8-Nov-2029	INE112A08051 ^
Tier II Bonds (Basel III)	14-Nov-2017	500	8.02%	14-Nov-2027	INE112A08044 ^

* Call option available after completion of 5 years from allotment date.

^ Issued by Corporation Bank and on amalgamation, transferred to Union Bank of India.

ANNEXURE III

List of entities consolidated - NA

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
-	-	-	-
-	-	-	-

BWR has followed a standalone approach and aforesaid details are shared for reference

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