



RATING RATIONALE

04 October 2021

Union Bank of India

Brickwork Ratings assigns the rating for the Additional Tier-I Bonds (Basel III) of Rs 250 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.4500 Crs of Union Bank of India. The Outlook is revised to Stable

Particulars:

Instruments **	Rated Amount (Rs Crs)		Tenure	Rating#	
	Previous	Present		Previous (November 2020)	Present
Additional Tier-I Bonds (Basel III)	--	250	Long Term	--	BWR AA/ Stable (Assigned)
Tier-II Bonds (Basel III)	500	500	Long Term	BWR AA+/ Stable	BWR AA+/ Stable (Reaffirmed)
Tier-II Bonds (Basel III)	1000	1000	Long Term	BWR AA+/ Stable	BWR AA+/ Stable (Reaffirmed)
Tier-II Bonds (Basel III)	1000	1000	Long Term	BWR AA+/ Stable	BWR AA+/ Stable (Reaffirmed)
Additional Tier-I Bonds (Basel III)	2000	2000	Long Term	BWR AA/ Negative	BWR AA/ Stable (Reaffirmed; revised the outlook)
Additional Tier-I Bonds (Basel III)	2500	2500	Long Term	BWR AA/ Negative	BWR AA/ Stable (Reaffirmed; revised the outlook)
Total	7000	7250	Rupees Seven Thousand Two Hundred Fifty Crores Only		

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

**Details of instruments are provided in Annexure

RATING ACTION / OUTLOOK

The rating assignment/reaffirmation for the aforesaid bond issues of Union Bank of India (the Bank or Union bank) 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 June 2021. The Bank's business size was Rs.15.77 lakh crores and balance sheet size of Rs.10.64 lakh crores, comfortable Capital adequacy ratios (i.e. a total CAR of 13.32% and Tier I ratio of 11.09% and Common Equity Tier-I (CET-1) ratio of 9.77%). The rating, however, is constrained by lower CASA ratio, average asset quality and its likely pressure on earnings.

The outlook on the AT-1 Bonds (under Basel III) was revised from Negative to Stable. The Bank's capital adequacy ratios have strengthened as of 30 June 2021. The Bank's CET I ratio was at 1.77% above the regulatory requirement and the Tier I ratio was at 1.59% above the minimum regulatory requirement. The bank will maintain these comfortable capital adequacy ratios going forward. The impact of asset quality and profitability in the event of lower collections and recoveries over the medium term shall remain a monitorable.

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

Additional Tier-I Bonds under Basel III

The differentiating features of the additional Tier-I (AT-I) capital instruments (under Basel III) are the discretionary payment of coupons by the bank and principal write-down upon the breach of a pre-specified trigger. These features increase the risk attributes of AT-I instruments over those of Tier-II instruments under Basel III. To factor in these risks, BWR notches down the rating on these instruments from the bank's Tier-II bonds. The rating on Union Bank's AT-I bonds (under Basel III) has, therefore, been lowered by one notch from its Tier-II bonds (under Basel III) rating. The factor based on which the rating of AT-I capital instruments (under Basel III) is lowered is pressure on capitalisation levels and the profitability. Nevertheless, the bank had adequately available distributable reserves as of 30 June 2021, and the bank ensures the timely servicing of the coupon payments.

Factors that could trigger a default event for non-equity Tier-I capital instruments (under Basel III) resulting in the non-payment of the coupon are as follows: i) the bank exercising coupon discretion, ii) the inadequacy of eligible reserves to honour the coupon payment if the bank reports losses or low profits, or iii) the bank breaching the minimum regulatory CET-1 ratio. Moreover, given the additional risk attributes, the rating transition for non-equity Tier-I capital instruments (under Basel III) can potentially be higher and faster than that for Tier-II instruments.

Note on Tier-II Instruments (under Basel III)

The distinguishing feature of Tier-II capital instruments under Basel II is the existence of the point of non-viability (PONV) trigger, and the occurrence of such a situation may result in the loss of principal to investors, and hence, to default on the instrument by the issuer. According to



the Basel III guidelines, the PONV trigger will be determined by the RBI. BWR believes that the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

KEY RATING DRIVERS

CREDIT STRENGTHS-:

Strong support from GOI: There is high sovereign support, with the GOI holding 83.5% as on 30 June 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 June 2021, the bank had a balance sheet size of Rs.10.65 lakh crores and business size of Rs.15.53 lakh crores. The gross advances stood at Rs 645,091 Crs as of 30 June 2021, of which 97.7% were domestic advances. The contribution from corporate advances was 43.9%, followed by retail at 19.9%, agriculture at 18.9% and MSME at 17.3% of the domestic advances as on 30 June 2021. The number of branches and employees also more than doubled, resulting in a wider reach for the bank. The merged bank had 9312 branches, 11824 automated teller machines (ATMs), over 77,000 employees and a customer base of over 120 million.

Strengthened deposit base: Deposits stood at Rs 908,528 Crs as at 30 June 2021. Union Bank's current accounts and savings account (CASA) ratio stood at 36.4% as on 30 June 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 81% for the merged bank. The credit to deposit ratio was comfortable, at 71.0%, as on 30 June 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 June 2021, the gross NPA further decreased to Rs.87,762 Crs through write offs of Rs.4734 Crs, upgradation of Rs.3194 Crs with improved collections, and recoveries of Rs.1147 Crs, while there were slippages of Rs.7049 Crs. As of 30 June 2021, the Gross NPA ratio was 13.60% (FY21: 13.74%) and Net NPAs were 4.69% (FY21: 4.62%). While the Gross NPAs were decreasing, there was degrowth in advances resulting in nullifying the effect on the gross NPA ratios. Going forward, along with the measures to reduce the gross NPAs, growth in gross advances shall be required.

Gross NPAs in the MSME segment stood at 21.17%, followed by the corporate segment at 14.7%, agriculture at 13.04% and the retail segment at 5.0% as on 30 June 2021. Incremental slippages in Q1 FY21 were lower at Rs 7049 Crs, compared with 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. There was an increase in slippages to NPA in Q1FY22, resulting in increased provisions of Rs.4122 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 have 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 June 2021, the bank had a comfortable liquidity position, with Liquidity Coverage Ratio (LCR) of 168%, 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 June 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 9312 branches, 11824 automated teller machines (ATMs), over 77,000 employees and a customer base of over 120 million.

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	0.5
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)			2020		Rating History for the past 3 years									
		Type	Amount (Rs. Crs)	Rating				2019			2018			2017		
1	Innovative Perpetual Debt Instrument (IPDI)	--	--	--	--		15.10.19			26.3.18 / 4.4.18			4.7.17			
								Long Term	140	Rating Withdrawn *	Long Term	140	BWR AA+/Stable	Long Term	140	BWR AAA/Stable
					--		30.3.19			NA			28.2.17			
								Long Term	140	BWR AA+/Stable				Long Term	140	BWR AAA/Stable
2	Innovative Perpetual Debt Instrument (IPDI)	--	--	--	--		15.10.19			26.3.18 / 4.4.18			4.7.17			
								Long Term	200	Rating Withdrawn *	Long Term	200	BWR AA+/Stable	Long Term	200	BWR AAA/Stable
					--		30.3.19			NA			28.2.17			
								Long Term	200	BWR AA+/Stable				Long Term	200	BWR AAA/Stable
3	Upper Tier II Bonds	--	--	--	--		15.10.19			26.3.18 / 4.4.18			4.7.17			
								Long Term	500	Rating Withdrawn *	Long Term	500	BWR AA+/Stable	Long Term	500	BWR AAA/Stable
					--		30.3.19			NA			28.2.17			
								Long Term	500	BWR AA+/Stable				Long Term	500	BWR AAA/Stable
4	Tier II Bonds (Basel III)	Long Term	1000	BWR AA+/Stable	03.11.20		15.10.19			26.3.18 / 4.4.18			4.7.17			
					Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AA+/CWDI	Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AAA/Stable
					15.10.20		30.3.19			NA			28.2.17			
					Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AA+/Stable				Long Term	1000	BWR AAA/Stable
5	Additional Tier I Bonds (Basel III)	Long Term	1500	BWR AA/Stable	03.11.20		15.10.19			26.3.18 / 4.4.18			4.7.17			
					Long Term	1500	BWR AA/Negative	Long Term	1500	BWR AA/CWDI	Long Term	1500	BWR AA/Stable	Long Term	1500	BWR AA+/Stable

					15.10.20			30.3.19			NA			25.3.17		
					Long Term	1500	BWR AA/ Negative	Long Term	1500	BWR AA/ Stable				Long Term	1500	BWR AA+/ Stable
6	Additional Tier I Bonds (Basel III)	Long Term	1000	BWR AA/ Stable	03.11.20			15.10.19			26.3.18 / 4.4.18			4.7.17		
					Long Term	1000	BWR AA/ Negative	Long Term	1000	BWR AA/ CWDI	Long Term	1000	BWR AA/ Stable	Long Term	1000	BWR AA+/ Stable
					15.10.20			30.3.19			NA			28.4.17		
					Long Term	1000	BWR AA/ Negative	Long Term	1000	BWR AA/ Stable				Long Term	1000	BWR AA+/ Stable
7	Tier II Basel III Bonds	Long Term	500	BWR AA+/ Stable	03.11.20			NA			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	03.11.20			NA			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	2000	BWR AA/ Stable	03.11.20			NA			NA			NA		
					Long Term	2000^	BWR AA/ Negative									
10	Additional Tier I Bonds (Basel III)	Long Term	250	BWR AA/ Stable												
Total			7250		Rupees Seven Thousand Two Hundred Fifty 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](#)

Analytical Contacts	
<p>Hemant Sagare Senior Manager - Ratings B :+91 80 4040 9940 Ext :333 hemant.s@brickworkratings.com</p>	<p>Vidya Shankar Principal Director - Ratings B :+91 80 4040 9940 Ext :312 vidyashankar@brickworkratings.com</p>
1-860-425-2742	media@brickworkratings.com

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 ^
Additional Tier I Bonds (Basel III)	--	795#	--	--	--
Additional Tier I Bonds (Basel III)	--	250 #	--	--	--

not yet raised.

* 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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