

RATING RATIONALE

15 October 2020

Union Bank of India

Brickwork Ratings assigns/reaffirms BWR AA+/Stable rating for the Basel III Tier II Bonds and reaffirms the rating of BWR AA/Negative for Basel III Additional Tier I Bonds of Union Bank of India, while removing the Credit Watch with Developing Implications on these ratings

Particulars:

Instruments **	Rated Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (October 2019)	Present
Tier II Bonds (Basel III) ^	--	500	Long Term	--	BWR AA+/ Stable (Assigned)
Tier II Bonds (Basel III) ^	--	1000	Long Term	--	BWR AA+/ Stable (Assigned)
Tier II Bonds (Basel III)	1000	1000	Long Term	BWR AA+/ Credit Watch with Developing Implications	BWR AA+/ Stable (Removed from Credit Watch and rating reaffirmed with Stable outlook)
Additional Tier I Bonds (Basel III)	2500	2500	Long Term	BWR AA/ Credit Watch with Developing Implications	BWR AA/ Negative (Removed from Credit Watch and rating reaffirmed with Negative outlook)
Total	3500	5000	Rupees Five Thousand Crores Only		

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

** ISIN Details of Instruments are provided in Annexure-I

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

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) assigns BWR AA+/Stable for Basel III Tier-II bonds, which have been transferred from Corporation Bank to Union Bank of India (Union Bank) on amalgamation. BWR also reaffirms the existing BWR AA+/Stable rating on the Basel III Tier-II bonds and BWR AA/Negative rating on the Basel III additional Tier-I bonds of Union Bank, as tabulated above. BWR has also resolved the Credit Watch with Developing Implications, following the completion of the amalgamation process.



The amalgamation of Corporation Bank and Andhra Bank with Union Bank was initially announced on 30 August 2019 by the Government of India (GOI), and the amalgamation was considered complete effective from 1 April 2020.

The ratings factors in the expectation of continued strong support from the GOI, being the promoter and major shareholder with an 89.07% stake in Union Bank as on 30 September 2020. The rating also factors in the established track record and significant increase in the size of the bank's operations at an amalgamated level and strengthened deposit base. The rating is, however, constrained by the average earnings profile, weak asset quality and expectation of higher credit costs, which may put pressure on the profitability.

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 profitability. Nevertheless, the bank's revenue reserves are comfortable, at Rs 14435 Crs as on 30 June 2020, and the bank ensures the timely servicing of the coupon payments.

The Negative outlook on the AT-I bonds (under Basel III) is mainly on account of a limited common equity Tier-I (CET-I) ratio cushion over the regulatory minimum and expected continued pressure on the bank's capitalisation levels on account of the impact on asset quality and profitability mainly due to lower loan collections and recovery, restructuring of loans under RBI-approved schemes and resulting impact on provisioning costs over the near term. The bank's ability to improve and maintain its capital adequacy levels with the CET-I ratio being at a minimum of 1% above the regulatory requirement and Tier I at a minimum of 1.5% above the regulatory requirement will be key rating monitorable.

KEY RATING DRIVERS

Credit Strengths

Strong support from GOI: There is high sovereign support, with the GOI holding 89.07% as on 30 September 2020. 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 GOI has already infused equity capital of Rs 4524 Crs in FY18, Rs 4112 Crs in FY19 and Rs 11768 Crs in FY20 in Union Bank. 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 increase in 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 has almost doubled, thereby increasing the bank's market share. The advances stood at Rs 6,66,117 Crs at an amalgamated level as of March 2020, compared with Rs 3,46,921 Crs at a standalone level. Around 46% of the total advances was to the corporate segment, 20% was to the retail segment, 18% was to MSME segment and ~16% was to the agriculture segment as on 30 June 2020. The number of branches and employees also more than doubled, resulting in a wider reach for the bank. The merged bank has 9587 branches, over 13300 automated teller machines (ATMs), over 77000 employees and a customer base of over 120 million.

Strengthened deposit base: Deposits stood at Rs 8,68,632 Crs at an amalgamated level as of March 2020, compared with Rs 4,50,668 Crs at a standalone level. The total deposits further increased to Rs 8,92,542 Crs as on 30 June 2020. Union Bank's current accounts and savings account (CASA) ratio stood at 33.3% as on 30 June 2020, which is 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) as a percentage of the total term deposits was over 41% for the merged bank. The credit to deposit ratio was comfortable at 72.84% as on 30 June 2020.

Credit Risks

Weak asset quality: The gross non-performing assets (NPAs) as on 31 March 2020 were high at 14.59% for the merged entity (14.15% at a standalone level). The gross NPAs further increased to 14.95% as on 30 June 2020. A large portion of the NPAs was pertaining to medium and large corporates. Gross NPAs in the corporate segment stood at 20.15%, in the retail segment stood at 3.90%, in the agriculture segment stood at 10.59% and in the MSME segment stood at 17.04% as on 30 June 2020. Incremental slippages in Q1 FY21 were lower at Rs 1750 Crs, compared with Rs 4303 Crs during Q4 FY20. However, the economic slowdown on account of the COVID-19 pandemic may result in an increase in slippages and also slow down recoveries, which may further impact the asset quality in the near term. Around 28% of the bank's loan portfolio was under moratorium as on 30 June 2020. The bank could witness some slippages from this portfolio under moratorium. The bank's ability to control slippages and manage its asset quality is a key rating monitorable.

Average earning profile: High credit costs have impacted the bank's profitability, which in turn has deteriorated its capital structure. The consolidated loss of the three banks that are now amalgamated was Rs 6618 Crs for FY20, compared with a loss of Rs 12069 Crs for FY19. The net interest margin and return on assets for the amalgamated bank stood at 2.52% and 0.12% (annualised), respectively, for Q1 FY21. The overall capital adequacy ratio (CAR), Tier I and



CET I ratios stood at 11.62%, 9.48% and 8.40%, respectively, as on 30 June 2020, wherein the cushion above the regulatory minimum is limited. Given the low accretion of profits, weak asset quality and expectation of an increase in credit costs, the bank will need to raise capital in the near term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, 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 show a considerable improvement in its asset quality, profitability and capitalisation is a key rating positive.

Negative: A deterioration in asset quality and capitalisation levels, and for AT-I bonds, the bank's inability to improve and maintain its capital adequacy levels with the CET-I ratio being at a minimum of 1% above the regulatory requirement and Tier-I ratio being a minimum of 1.50% above the regulatory requirement are key rating negatives.

LIQUIDITY POSITION: STRONG

As on 30 June 2020, the bank had a liquidity coverage ratio (LCR) of 164%, which is well above the minimum regulatory requirements. It is further supported by a strong retail deposit base. As of 30 June 2020, the bank had cash and balances with the RBI of Rs 28575 Crs, balances with banks and money at call and short notice of Rs 76849 Crs and investments of Rs.326532 Crs.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending directly or indirectly to retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on the interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. 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 publish the same.

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. Post the amalgamation, the GOI held an 89.07% stake in the bank as on 30 September 2020. The balance sheet size has almost doubled for the merged entity. The merged



bank has 9587 branches, over 13300 ATMs, over 77000 employees and a customer base of over 120 million.

KEY FINANCIAL INDICATORS

Key Parameters	Units	UBI (Pre-merger of CB and AB)		Merged^
		FY19	FY20	Q1 FY21
Result Type		Audited	Audited	Unaudited
Net Interest Income	Rs in Crs	10215	11437	6403
Net Interest Margin	%	2.23	2.29	2.52
Net Profit/ (Loss)	Rs in Crs	(2947)	(2898)	333
Total Deposits	Rs in Crs	415915	450668	892542
Total Advances	Rs in Crs	325392	346921	650127
Gross NPA	%	14.98	14.15	14.95
Net NPA	%	6.85	5.49	4.97
Net Worth to Net NPA	In times	1.30	1.95	2.12
Total CRAR	%	11.78	12.81	11.62
Tier I	%	9.48	10.75	9.48
CET I	%	8.02	9.40	8.40

^ merged financials of Union Bank (UBI), Andhra Bank (AB) and Corporation Bank (CB)

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

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

Sr. No.	Name of Instrument	Current Rating (2020)			Rating History for the past 3 years								
		Type	Amount (Rs. Crores)	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	15.10.19			26.3.18 / 4.4.18			4.7.17		
					Long Term	1000	BWR AA+/CWDI	Long Term	1000	BWR AA+/Stable	Long Term	1000	BWR AAA/Stable
					30.3.19			NA			28.2.17		
					Long Term	1000	BWR AA+/Stable				Long Term	1000	BWR AAA/Stable
5	Additional Tier I Bonds (Basel	Long Term	1500	BWR AA/Negative	15.10.19			26.3.18 / 4.4.18			4.7.17		

	III)				Long Term	1500	BWR AA/CWDI	Long Term	1500	BWR AA/Stable	Long Term	1500	BWR AA+/Stable
					30.3.19			NA			25.3.17		
					Long Term	1500	BWR AA/Stable				Long Term	1500	BWR AA+/Stable
6	Additional Tier I Bonds (Basel III)	Long Term	1000	BWR AA/Negative	15.10.19			26.3.18 / 4.4.18			4.7.17		
					Long Term	1000	BWR AA/CWDI	Long Term	1000	BWR AA/Stable	Long Term	1000	BWR AA+/Stable
					30.3.19			NA			28.4.17		
					Long Term	1000	BWR AA/Stable				Long Term	1000	BWR AA+/Stable
7	Tier II Basel III Bonds ^	Long Term	500	BWR AA+/Stable	NA			NA			NA		
8	Tier II Basel III Bonds ^	Long Term	1000	BWR AA+/Stable	NA			NA			NA		
	Total		5000		Rupees Five Thousand 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

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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Union Bank of India

ANNEXURE I 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 *
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 UBI.



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