

United Bank of India
December 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Outstanding Lower Tier II Bonds (Series VI)	250 (Rs Two hundred fifty crore only)	CARE A+;Negative (Single A Plus; Outlook:- Negative)	Rating reaffirmed and Outlook revised from 'Stable'
Outstanding Lower Tier II Bonds (Series VII-tranche1)	200 (Rs. Two hundred crore only)		
Perpetual Bonds (Series I)	300 (Rs Three hundred crore only)	CARE A-;Negative (Single A Minus; Outlook:- Negative)	

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instrument of United Bank of India (UBI) continues to derive strength from strong parentage support of Government of India (GOI), relatively higher proportion of low cost deposits & satisfactory liquidity parameters with surplus investments. The rating continues to be constrained by weak asset quality which has significantly impacted the profitability in FY18 (refers to the period April 01 to March 31) and H1FY19, deterioration in the capital adequacy levels below the statutory requirement as on Sep. 30, 2018, high dependence on GOI for fund support and risk of imposition of further restriction under PCA.

The ability of the Bank to improve its profitability and asset quality followed by continued fund support from GOI and improvement in the capitalization levels to meet the statutory requirement and growth in the advances would remain the key rating sensitivities.

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' as bank's capitalization as on Sep. 30, 2018 has deteriorated below the regulatory threshold and the bank's asset quality continues to remain weak leading to q-o-q losses. The outlook may be revised to stable if the deterioration in asset quality is arrested and the trend of losses is reversed or bank improves its capitalization profile significantly through fresh capital infusion from GOI.

Detailed description of the key rating drivers**Key Rating Strengths****Strong parentage support**

UBI is a public sector bank with GoI holding 92.25% shareholding (as on Sept 30, 2018). GoI from time to time has supported the bank through infusion of equity capital. During FY18, the bank received equity share capital of Rs.2,634 crore from GOI towards capital infusion under the PSB recapitalisation plan for banks, which enabled the bank to meet the regulatory capital requirements under Basel III as on March 31, 2018. However, with continued losses and redemption of AT-1 bonds in Q1FY19, the overall capital adequacy ratio deteriorated to 7.82% as on September 30, 2018 (10.96% as on June 30, 2018 and 12.62% as on March 31, 2018); which is below the regulatory requirement. Accordingly, timely infusion of fresh funds by GOI will remain a key rating sensitivity.

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 improved from 47.33% as on Mar.31, 2017 to 48.44% as on Mar.31, 2018 and further to 48.95% as on Jun.30, 2018 & 49.23% as on Sept 30, 2018. The bank's Credit to Deposit ratio (C/D ratio) declined marginally from 0.52x as on March 31, 2017 to 0.48x as on March 31, 2018 on account of growth in deposit base (+1.88% in Mar'18) coupled with decline in advance portfolio (-5.52% y-o-y in Mar'18). C/D ratio further deteriorated and stood at 0.46x as on Sept 30, 2018.

Satisfactory liquidity parameters

As per structural liquidity statement of the bank as on Sept 30, 2018, the bank has negative cumulative mismatches beyond 6 months period as roughly 32% of the deposits are getting matured within one year bucket. The negative cumulative mismatch upto one year tenor bucket is Rs.4078 crore. However, the Bank has excess SLR investment of Rs.12,944 crore as on Sept 30, 2018 (SLR Investments maintained Rs.38,509 crore vis-à-vis required SLR of Rs.25,565 crore). 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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

money market.

Key Rating Weaknesses

Weak asset quality in FY18 and H1FY19

The asset quality of the bank deteriorated significantly during FY18. Gross NPA deteriorated from 15.53% in FY17 to 24.10% in FY18 due to higher slippages following the revised framework for resolution of stressed assets introduced by RBI in Feb 2018 followed by decline in the gross advances. Consequently the Net NPA ratio stood at 16.49% (PY: 10.02%) and Net NPA to Net worth ratio stood at 229.03% as on March 31, 2018 (PY: 129.54%). However as on Sept 30, 2018, the Gross NPA and Net NPA ratio though improved and stood at 22.69% and 14.36% respectively; still continuing to remain on the higher side.

Significant deterioration in capitalization with CAR breaching regulatory requirement

As on Sept 30, 2018, the bank's CAR stood at 7.82% (as against minimum regulatory requirement of 10.875% including CCB) which constitutes Tier I ratio of 5.82% (min. regulatory requirement of 8.875%) and Tier II ratio of 2.00% against a CAR of 12.62% as on March 31, 2018 & CAR of 10.96% as on June 30, 2018. The bank's CET I Ratio stood at 5.82% (against minimum regulatory requirement of 7.375%) as on Sept 30, 2018. The bank is dependent on timely infusion of capital from GOI for maintaining its capitalization levels.

Continued deterioration in the financial performance during FY18 and H1FY19

The bank's total income deteriorated by 9.11% on a y-o-y basis to Rs.10,556 crore in FY18 mainly due to decline in advances. NIM declined from 1.48% in FY17 to 1.13% in FY18 mainly due to deterioration in the credit deposit ratio resulting in low stock of earning assets & decline in the yield on advances from 8.00% in FY17 to 7.87% in FY18. This coupled with decline in the investment portfolio led to decline in the operating income. Provisioning cost as a % of average total assets deteriorated and stood at 2.85x as on March 31, 2018 as against 1.85x as on March 31, 2017 due to increase in provisions vis-à-vis FY17 Levels due to higher provisioning on assets recognized as NPA by the bank.

Overall, the bank reported negative ROTA of 1.04% in FY18 as against a positive ROTA of 0.16% in FY17. On an absolute basis, the bank reported loss of Rs.1,454 crore during FY18 as against a profit of Rs.220 crore in FY17. During H1FY19 UBI posted a loss of Rs.1,272 crore vis-à-vis Rs.556 crore in H1FY18 on account of decline in total income from Rs.5438 crore in H1FY18 to Rs.5,150 crore in H1FY19 coupled with significant increase in provisions by around 55% in H1FY19 vis-à-vis H1FY18.

PCA restrictions imposed by RBI

RBI, vide its letter dated Dec 19, 2017 has prescribed certain actions under the Prompt Corrective Action (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 and risk of imposition of further restriction remains; as CAR is below the regulatory requirement.

Analytical Approach: CARE has considered the standalone business and financial profile of UBI along with ownership and expected support from Government of India.

Applicable Criteria

[Criteria on assigning Outlook 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 \(Tier I & Tier II\)](#)

About the Bank

United Bank of India (UBI), incorporated in 1950 with GoI having about 92.25% equity stake as on Sept 30, 2018. 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 wef Oct.01, 2018). He is assisted by Shri Ajit Kumar Das, Executive Director, Shri Sanjay Kumar, Executive Director and Shri Ashwini Kumar Jha, CFO (appointed wef Dec.01, 2018), along with various General Managers.

As on Sept.30, 2018, UBI managed advances and deposits of Rs.66,830 crore and Rs.129,977 crore, respectively, through a network of 2,057 branches. UBI is under PCA since Dec 2017 in view of net non-performing assets ratio at 10% as of March, 31, 2017 breaching the prescribed second level risk limit of 9%, which was the reason for inviting RBI direction.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	9,428	8,342
PAT	220	(1454)
Interest Coverage (times) – Before Provisions	1.21	1.15
Interest Coverage (times) – After Provisions	0.88	0.57
Total Assets	138,398	140,578
Net NPA (%)	10.02	16.49
ROTA (%)	0.16	-1.04

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr. Abhishek Khemka

Tel: 033-4018 1610

Mobile: 9831099290

Email: abhishek.khemka@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.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 credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

Annexure-1: Details of Instruments/Facilities

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+; Negative
Bonds-Lower Tier II	March 25, 2009	9.30%	25.03.2019	250.00	CARE A+; Negative
Debt-Perpetual Debt	December 05, 2012	9.27%	05.12.2022	300.00	CARE A-; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	200.00	CARE A+; Negative	-	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)	1)CARE A+ (19-Oct-15)
2.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (19-Oct-15)
3.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (14-Jun-16)	1)CARE A+ (19-Oct-15)
4.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (12-Sep-16)	1)CARE A+ (19-Oct-15)
5.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (07-Jul-17)	1)CARE A+; Negative (26-Dec-16) 2)CARE A+ (12-Sep-16)	1)CARE A+ (19-Oct-15)
6.	Bonds-Lower Tier II	LT	250.00	CARE A+; Negative	-	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)	1)CARE A+ (19-Oct-15)
7.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (07-Jul-17)	1)CARE A-; Negative (26-Dec-16) 2)CARE A- (12-Sep-16)	1)CARE A- (19-Oct-15)
8.	Debt-Perpetual Debt	LT	300.00	CARE A-; Negative	-	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)	1)CARE A- (19-Oct-15)
9.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (06-Sep-17)	1)CARE A+; Negative (26-Dec-16) 2)CARE A+ (12-Sep-16)	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000 / 01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691